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FIELD

ON

THE LAW

OF

PRIVATE CORPORATIONS.

BY

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REVISED BY

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PREFACE.

In the revision of this work the object has been to bring into one volume the largest possible amount of useful and practical matter, without essentially impairing the plan of the author or destroying the symmetry of his work. Some portions of the original text, which it was believed could reasonably be dispensed with, have been eliminated and replaced by other matter, and other matter, covering just one hundred and two pages more than the original work, has been added to it. The original work, in my judgment, was an excellent one, and much better adapted for practical use by the profession than any which has been published. In going over the topics treated by the author I have found on every page evidences of careful research, conscientious study and an honest purpose on his part to give to the profession a book upon the vast topics covered by it, which should be of value to them, and I sincerely trust that my labors have not impaired the symmetry or the excellence of his work. If my task had been to write a new work upon the subject, my plan might have been somewhat different from the author's, as I have always believed that a subject, involving so many nice and intricate questions as this one does, cannot be satisfactorily treated in a single volume, and that a work which merely covers the outlines of a subject, and confines itself to the mere statement of general rules, is never entirely satisfactory to the practicing lawyer, who, in the preparation of his cases, desires to find the exceptions to, or the adjudged application of, the rules, rather than the rules themselves, with which he is supposed to be familiar. I know that the tendency of authors latterly is to condense the law into rules, within a brief compass, but I think that the profession will agree with me that mathematical certainty is not an element of legal rules or propositions, and that the exceptions to these rules, are of as

much importance as the rules themselves, and that it is the duty of an author to note these exceptions as fully as possible, which, upon a subject which has attained such proportions as that involved under the head covered by this treatise, cannot be done in a single volume. Yet I believe that this work will be found to be of more practical value to the profession than any other, and that it will serve as a useful guide upon many heads of the subject involved, not covered by any other work upon the subject.

TABLE OF CONTENTS.

CHAPTER I.

WHAT ARE — ORIGIN AND HISTORY OF.

Sec.		Page.
1.	What are corporations, and kinds of	1
2.	Various kinds of corporations	3
3.	Distinction between public and private corporations	6
4.	*Quasi* corporations	7
5.	Origin and early history of private corporations	8

CHAPTER II.

HOW CORPORATIONS ARE CREATED.

6.	Creation an act of sovereignty	9
7.	Creation by royal charter	10
8.	Creation by act of parliament	11
9.	Corporations at common law and by prescription	12
10.	How created in this country	13
11.	Power of congress to create	13
12.	Sovereign authority of legislatures	14
13.	General statutes of incorporation	15
14.	The national banking law	17
15.	Of the power to delegate authority to create	18
16.	Of the power of territorial legislatures to create	18
17.	Corporations by prescription in this country	19
18.	Foreign joint-stock companies may be corporations	20
19.	The corporate name	23
20.	The location of corporations	26
21.	Words of incorporation in royal grants	27
22.	Common-law incidents of a corporation	28
23.	Acceptance of the grant	28
24.	Mode of acceptance	30
25.	Same continued	31
26.	Acceptance must be unconditional	31

Sec. Page.
27. Acceptance under general laws ... 32
28. The term, "constating instruments" ... 33
29. Organization of a corporation ... 36

CHAPTER III.

PRIVATE CORPORATIONS — NATURE AND CHARACTER OF.

30. Distinction between public and private corporations ... 38
31. Legislative control of public corporations ... 39
32. Private corporations — doctrine in reference to legislative control over ... 41
33. Immunity does not exempt property from legislative control ... 45
34. Power of the legislature to regulate the charges of railroads ... 46
35. Ground on which legislative power is predicated ... 48
36. Reason for the exercise of such power ... 51
37. Legislative control over rate of charges by railroad companies ... 53
38. Subsequent grants do not impair the contract — construction of grants ... 56
39. Reservation of power in the legislature ... 59
40. Right to resume based upon misuse or abuse of its franchise ... 63
41. The power to resume cannot be exhausted ... 63
42. General statutes reserving the power ... 63
43. Amendments of charters ... 64
44. Repeal of charter ... 65
45. General implied powers of ... 65
46. Powers conferred or limited by statute ... 66
47. Corporate powers limited to the object of the grant ... 67
48. Distinctions between corporate and copartnership associations ... 70

CHAPTER IV.

PERPETUAL SUCCESSION.

49. The doctrine of immortality ... 73
50. The advantages of perpetual succession ... 73

CHAPTER V.

MEMBERS — STOCKHOLDERS AND STOCK.

51. Composition of private corporations ... 78
52. The government may constitute a member ... 79
53. Admission and election of members and officers ... 81
54. Disfranchisement and expulsion of members ... 81
55. *Quasi* corporations ... 82
56. Membership under general statutes ... 90
56*a*. Certificates of stock, nature of, etc ... 91

Sec.		Page.
57.	Management by directors	94
58.	Shareholders are members — right to vote	95
59.	Transfer books of company	97
59*a*.	Rights of corporation in stock, lien, etc	100
60.	Executor of stockholder, rights of	106
61.	Right to vote by proxy or attorney	106
62.	Matters that stockholders are presumed to know	107
63.	Personal liabilities of, under statutes	108
64.	Cause of action, accrues when	110
65.	Intentional deceit as to organization, etc	112
66.	General liabilities of, on subscription to stock	114
67.	Conditions provided by the constating instruments	116
68.	Special disabilities created by charter	118
69.	Condition must be complied with	118
70.	Conditional subscriptions	120
71.	Company may accept payment in labor, etc	122
72.	The condition may be waived	123
73.	When the condition is void	123
74.	Conditions which will avoid the whole contract	125
75.	Conditional subscriptions continued	127
76.	Fraudulent subscriptions	130
77.	Subscriptions in contemplation of incorporation	131
78.	Fraud in relation to subscriptions	132
79.	Rules depend upon statutes or constating instruments	136
80.	Defense to subscriptions on other grounds	137
81.	Changes in charter	139
82.	Assessments and calls for payments	141
83.	Promise to pay, effect of, by whom calls should be made	142
84.	Diversion of capital to other purposes	143
85.	Forfeiture of stock	145
86.	Assessments — rules in relation to	148
87.	Power to lay, cannot be delegated	149
88.	Statutory power must be followed	150
89.	Several assessments may be laid at one time, when	150
90.	Notice of assessments or calls	151
91.	Sufficiency of	152
92.	Rights of stockholders to dividends	153
93.	Right of purchaser to dividends	155
94.	Effect of declaring dividend	158
95.	A stockholder may sue for his dividends	159
96.	Income on stock in trust	159
97.	Money in hands of directors	160
98.	Right to sell and assign shares	161
99.	Transfer of stock	162

Sec.		Page.
100.	Power of attorney to transfer, presumption arising from	170
101.	Liabilities of assignees to corporations	171
102.	Liability of purchasers from trustees	173
103.	Right of trustee to pledge	173
104.	Rights of *cestui que trust* against purchaser	175
105.	Stockholder's right to vote — holding stock constitutes right	176
106.	Right of stockholders to access to books	177
107.	Holders of preferred stock	178
108.	When it can be issued — dividends on	178
109.	Scrip and preliminary subscriptions	179
110.	Stock defined, etc	180
111.	Issuing certificates of shares	181
112.	Certificates unlawfully issued	182
113.	Fraud in issuing stock certificates	183
114.	Shares and income — character and quality of, as property	183
115.	Interest of stockholders in corporate property	184
116.	How stockholder's interest is conveyed	185
117.	Character and quality of certificates	186
118.	Transfer of shares — how made	188
119.	Effect of assignment and delivery	190
120.	Refusal of the corporation to transfer	192
121.	Contracts for the transfer of shares	196
122.	Liens of the corporation on stock	197
123.	Company may refuse to transfer, when	198
124.	Instances where corporation has been held justified in refusing to transfer	199
125.	Corporation may be compelled to transfer	200
126.	Stock subject to execution against assignor, until transferred	201
127.	Stockholder's right of action against the corporation	202
128.	When stockholder may have injunction against corporation	203
129.	Liability of the stockholders in equity to creditors	205
130.	Overissued, and "watered stock."	206

CHAPTER VI.

DIRECTORS.

131.	Directors — election of	211
132.	Relation of, to stockholders	213
133.	Powers of directors	214
134.	Same continued	215
135.	Board of directors or managers	216
136.	General powers of and limitations thereon	216
137.	Implied powers of	217
138.	Acts not within the scope of their powers	218

Sec. Page.
139. Powers conferred by the fundamental law.... 219
140. Powers depend upon interpretation.... 221
141. Powers not conferred upon directors remain in the corporate body.... 221
142. The directors cannot change the character and objects of the corporation.... 223
143. Directors as agents.... 225
144. Distinction in Massachusetts.... 226
145. Rule in England as to the authority of directors.... 225
146. Delegation of authority.... 227
147. Ratification of agent's acts.... 232
148. Same continued.... 236
149. Effect of knowledge of unauthorized acts.... 237
150. Effect of ratification.... 239
151. Directors under the national banking law.... 239
152. Personal liability of directors.... 240
153. Same continued.... 242
154. The fiduciary character of directors.... 243
155. Same continued.... 244
156. They cannot manage the affairs of the corporation for their personal benefit.... 247
157. Contracts by directors with corporation.... 248
158. Instances where they are not personally liable.... 253
159. Where they act without authority.... 255
160. Liability as partners.... 256
161. Directors *de facto*.... 256
162. Compensation of.... 257
163. Cannot increase their own compensation.... 259
164. Meetings of directors.... 266

CHAPTER VII.

OFFICERS AND AGENTS GENERALLY.

165. Necessity for corporate agents.... 267
166. General limitations on the authority of agents.... 268
167. Directors as agents.... 268
168. Appointment of agents, use of seal, etc.... 269
169. What is within the scope of the agent's authority.... 271
170. Powers implied by virtue of an office.... 272
171. Powers of president.... 274
172. Authority by usage.... 277
173. Apparent authority.... 277

Sec. Page.
174. Distinction between executed and unexecuted contracts, where the agent exceeds his authority. ... 278
175. Limitations of power as to time 279
176. Mode of executing contracts by agents ... 281
177. How contracts by, should be executed ... 282
178. Id ... 286
179. *Ultra vires* contracts by agents ... 286
180. Same continued ... 287
181. Parties dealing with an agent must take notice of his authority .. 287
182. Delegation of authority by agents ... 290
183. Same continued ... 291
184. Powers expressly conferred ... 292
185. Ratification of acts of agents ... 292
186. The doctrine of ratification applicable to corporations ... 294
187. Same continued ... 295
188. Personal liability of agents ... 296
189. Forms of executing power by agents ... 297
190. When agent personally bound ... 298
191. Where there is no principal ... 298
192. Liability of agent in case of misrepresentation of his authority ... 299
193. Matters of which parties dealing with agents are bound to take notice ... 301
194. Same continued ... 302
195. Liability of agents for violation of duties ... 302
196. Compensation of officers and agents ... 303
197. Frauds of officers and agents ... 308
198. Proof of agency ... 308

CHAPTER VIII.

CORPORATE MEETINGS.

199. How the will of the corporate body is expressed ... 310
200. Notice of corporate meetings ... 311
201. Common-law doctrine relating to notices ... 313
202. Waiver of notice — presumptions ... 315
203. Adjourned meetings ... 316
204. General and special meetings ... 317
205. The majority at corporate meetings may express the corporate will 318
206. Doctrine in case of a pledge of stock — right of pledgee or trustee to vote ... 319
207. Meeting of directors ... 321
208. Acts of an irregular meeting may be valid ... 322
209. Can the directors only act as a board? ... 322
210. Same continued ... 324
211. What constitutes a *quorum* ... 325

Sec. Page.
212. Same continued ... 325
213. Majority may act ... 326
214. The powers of directors ... 326
215. The mode of expressing assent by directors ... 327
216. Corporate meetings cannot be held outside the state ... 327
217. Directors may hold meetings outside the state ... 329
218. Jurisdiction of equity to restrain by injunction ... 331

CHAPTER IX.

CORPORATE CONTRACTS.

219. The power to contract, a corporate incident; construction of the power ... 335
220. Mode of exercising the power ... 336
221. Incidental powers of a corporation ... 338
222. Cases illustrating the subject ... 340
223. Contracts relating to bailments ... 344
224. What would and what would not be within the scope of an agent's authority, in cases of bailments ... 345
225. Place of contracting by the corporation ... 346
226. Place of contracting by directors ... 349
227. Corporate bills and notes; negotiable quality of corporate bonds. 350
228. Coupons; their incidents and qualities ... 353
229. *Ultra vires;* doctrine of ... 355
230. Different senses in which the term is used ... 360
231. Are all contracts void, entered into by corporations, beyond the powers conferred upon them? ... 361
232. Same continued ... 366
233. Distinction between executed and unexecuted contracts, in relation to *ultra vires* ... 366
234. Same continued ... 368
235. When neither party can avoid a contract, although *ultra vires* ... 374
236. Same continued ... 375
237, 238. Form of action, in case of *ultra vires* contracts ... 377
239. The doctrine of *ultra vires* applied to agents ... 381
240. The doctrine of *ultra vires*, in cases of negotiable instruments ... 382
241. Necessary or implied powers, not *ultra vires* ... 384
242. Right to mortgage ... 388
243. Conclusion as to *ultra vires* contracts ... 388

CHAPTER X.

THE CORPORATE SEAL.

244. Definition; history ... 392

Sec. Page.
245. History of private seals 393
246. How seals came into use 394
247. Incident of a corporation 394
248. Former doctrine as to corporate seals 395
249. Origin of the law relating to corporate seals 397
251, 252, 253. Corporate seals ; present doctrine in reference to 400
254, 255. What is a common seal 404
256. By whom the seal should be affixed 406
257. Where an acknowledgment is required 407
258. Doctrine in relation to agents 407
260. The seal as evidence 410

CHAPTER XI.

BY-LAWS.

261. General principles relating to by-laws 412
262. Requisites of, and construction relating to by-laws 413
263. By-laws must be reasonable and not oppressive, nor contrary to the laws of the state 414
264. By-laws in restraint of trade 416
265. By-laws, when adopted by the corporate body 417
266. By laws adopted by the directors 417
267. Distinction between by-laws adopted by the corporation and those adopted by directors 418
268. By-laws contrary to the general laws of the land void 420
270. Matters that may be regulated by by-laws 422
272. How by-laws are made 425
273. Repeal of by-laws 426
274. Functions of by-laws — effect on third persons 427
275. By-laws regulating the transfer of stock 428
277, 278. Providing for a corporate lien on stock 429
279. Notice conferred by the by-laws 431
280. By-laws cannot enlarge or abridge the rights of stockholders ... 431

CHAPTER XII.

LIABILITY OF CORPORATIONS FOR TORTS.

281, 282. General principles relating to the liability of, for torts 432
283. Corporations, when liable for torts 434
284. Liability of principal for acts of agent 435
285. They may do wrongful acts, or direct them to be done 436
286. Frauds of corporations, or of their agents 436
287. Doctrine of *ultra vires* not applicable to torts 438
288. Frauds of agents for which the corporation is liable 441

Sec. Page.
289. Frauds, etc., of directors 442
290. Particular acts of fraud by agents 443
291. Doctrine where the corporation is the occasion of the loss by the fraudulent act of a servant 444
292. Corporations enjoying the benefit of contracts secured by the frauds of agents will be responsible for such frauds 445
293. Rule in England 446
294. Right to repudiate a contract for fraud limited to the original parties 449
295. Ratification of a contract effected by the fraud of the agent 449
296. Ratification of torts 450
297. Corporate liability for other other wrongs 450
298. Assault and battery ; when committed in line of duty of the agent 456
299. Distinction between torts and contracts as to application of doctrine of *ultra vires* 457
300. Liability of corporations for trespasses to property 457
301. Rule in *Vance* v. *Erie R. Co.* 458
302. Liability of corporations in cases of the negligence of agents ... 459
303. Limitation of liability in case of negligence 460
304. Rule in Illinois as to proximate cause 462
305. Reason for rule as to proximate cause 463
307. Complications arising from successive negligence 464
311. Damages generally, in cases of torts 467
312. When injury of permanent nature 468
313. Exemplary damages 469
315. Application of the doctrine to private corporations 471
316. Extreme doctrine of liability for exemplary damages 472
317. Gross negligence, which authorizes exemplary damages 474
318. Inconsistency of the rule in its application to corporations 474
319. Recent examination of the doctrine of exemplary damages 475
322. Conflict growing out of the diverse rules 478
323. Damages for an injury resulting in death. 479
324. Elements of damages in case of death ; what it is competent to show 480

CHAPTER XIII.

SUIT AT LAW BY AND AGAINST CORPORATIONS.

325. The right to sue and the liability to be sued, common-law incidents 482
326. In what name must sue or be sued 483
327. May sue and be sued by members 483
329. Where suit may be brought 485

Sec. Page.
330. Foreign corporations not citizens 487
334. When suits may be brought in the federal courts 491
335. A corporation may be an alien under the judiciary act 491
336. It may be a citizen under the constitution of the United States, and the acts of congress relating to judicial powers and the jurisdiction of the courts 492
338. Corporations considered as citizens under the statutes of the United States, for the removal of suits from the state to the federal courts 494
342. Rights in courts under the national banking law 497
345. Parties to a suit 500
346. Process 501
347. Pleadings 502
349. When a party dealing with a corporation is estopped to deny the corporate existence 504
350. When the corporation is estopped to deny its existence 505
351. General denial 505
352. Proof of incorporation 506
354. Corporate records 507
356. Stockholders' rights in equity 509

CHAPTER XIV.

SUITS IN EQUITY BY AND AGAINST CORPORATIONS AND DIRECTORS.

357. Remedy in equity by and against corporations 510
358. Rights, liabilities and remedies of various parties 511
359. Rights and liabilities of, and remedies against, directors 511
363. Stockholders' liability in equity 515
364. Rights of stockholders to restrain acts *ultra vires* 515
365. Creditors' rights in equity for a misappropriation of the corporate fund 517
367. Doctrine, generally, as to parties in equitable proceedings 521
370. Where an injunction will be granted 523
371. Where an injunction will not be granted 524
372. Specific performance — right of way 526

CHAPTER XV.

EXECUTION AND THE APPOINTMENT OF RECEIVERS.

373. The common-law doctrine in reference to execution 528
374. Where the same doctrine provides for a sale on execution 531
375. Doctrine as to the subjection of stocks to execution 531
376. Statutes generally provide for the garnishment of stockholders 532
377. Appointment of receivers 535

Sec. Page.
378. Judgment creditor's right to a receiver 535
381. Functions, rights and duties of a receiver of a corporation 542

CHAPTER XVI.

AMALGAMATION AND CONSOLIDATION.

384. Amalgamation — meaning of 545
385. The English doctrine relating to amalgamation 546
386. Doctrine in this country 547
387. Consolidation must be authorized by legislative authority 548
388. Where legislative authority is conferred after the creation of the corporation 549
390. Difficulty removed by the exercise of the right of eminent domain 550
392. Where authority to consolidate exists at the time of the creation of the corporation 552
393. Rule as to the requisite concurrence where no provision is made therefor 553
394. The new corporation created by consolidation 554
395. Doctrine as to the creditors of the consolidating companies 557
396. Consolidation of companies organized in different states 558

CHAPTER XVII.

EMINENT DOMAIN.

398. What the right of eminent domain is 561
399. How the right can be enjoyed 566
400. The authority to grant the right is in the legislature 569
401. What are public uses which justify the exercise of the right 570
402. Who is to determine the question of public use 576
403. Limit of the right 578
404. Who is to determine in reference to the extent, amount or quantity of property to be taken 580
406. Where the corporation takes more land than is required 589
407. Compensation 591
409. Damages — mode of estimating 601
410. Elements of damages which may be considered 606
411. Lands injuriously affected but not taken 606

CHAPTER XVIII.

QUO WARRANTO.

412. The writ of *quo warranto* at common law 610
413. Proceedings in the nature of *quo warranto* 617
414. The remedy regulated by constitutional and statutory provisions. 619
415. As a remedy against private corporations 619
416. The fact of non-user or mis-user must be clear 621

Sec. Page.
417. As a remedy for an unlawful usurpation of an office in a private corporation..... 623
418. Possession and user of the assumed office, essential..... 626
419. Non-user as a ground for forfeiture..... 626
420. Destruction of the objects of a corporation, as a ground of forfeiture... 627
421. Pleadings. Evidence..... 627
422. Judgment..... 627
423. Nothing forfeited to the state but the franchise..... 628

CHAPTER XIX.

LIENS ON CORPORATE PROPERTY AND THEIR PRIORITY.

424. Corporate mortgages and bonds secured thereby.. 629
425. Can the corporation by mortgage or trust deed give a lien on property to be thereafter acquired..... 631
426. What may be conveyed by mortgage..... 634
427. Rolling stock, character and quality of..... 637
429. Mechanics' and constructors' liens..... 641
431. Not assignable.... 642
432. Priority between mortgage and mechanics' liens..... 642

CHAPTER XX.

DISSOLUTION.

436. Cause for which corporations may be dissolved or which constitute a dissolution..... 648
437. Reserved power in the legislature to dissolve 648
439. Where the reserved power is subject to a condition..... 650
440. Expiration of the time limited for its continuance..... 651
441. Neglect or abuse of powers..... 652
443. Mode of proceeding in such cases..... 654
445. Dissolution by the voluntary act of members... 658
446. When the majority may surrender the franchise..... ... 660
447. Dissolution under statutes providing for the winding up of corporations..... 661
449. Dissolution by the death of all the members..... 665
450. Effect of dissolution generally at common law 667
451. Effect of dissolution upon creditors..... 669
452. Forfeiture, not the subject of collateral inquiry 670
453. When corporate existence may be inquired into, collaterally..... 671

CHAPTER XXI.

MANDAMUS.

Sec. Page.
454. The writ and its functions 672
455. The writ in this country 672
456. When issued, discretion of the court 673
457. Practice and proceedings 673
458. Office of the writ to compel the performance of duty 674
459. Concurrence necessary to authorize the issuing of the writ 677
460. When it will not be issued 677
461. Resemblance and distinction between, and injunction 679
462. Against private corporations or its officers 679
463. Corporations may invoke its aid 684
464. To compel inspection or delivery of corporate books and papers. 685
465. As a remedy against corporations 687
466. To whom the writ should be directed, and service 688

CHAPTER XXII.

TAXATION.

467. Taxation defined and necessity of 689
468. Should be equitably imposed 689
469. Difficulty attending taxation of railroad property 691
470. Statutes regulating taxes on corporate property 691
472. What corporate property is taxable — double taxation 694
473. Corporate property subject to and exempt from taxtion 694
474. Exemption statutes sustained 697
475. Indications that the doctrine will not be extended 702
476. Where corporate property is used in different states 705
477. Exemption of United States stocks 706
478. Exemption from taxation under the national banking law 710
479. Municipal subscriptions in aid of corporate enterprises, and taxation therefor 711

CHAPTER XXIII.

NEGLIGENCE AND WRONGFUL ACTS OF AGENTS OR SERVANTS.

480. Corporate liability for negligence and wrongful acts of agents and servants 716
481. Illustration of the rule 717
482. The maxim *qui facit per alium facit per se*, especially applicable to corporations 718
483. Cases illustrating the maxim 719
487. Real test of liability 724

Sec.		Page
488.	Implied powers of agents	729
489.	Matters to be considered in determining whether the act is within the scope of the agent's authority	731
490.	Contractor's and contractee's liability	732
491.	Liability in case of a nuisance attaches only when a nuisance necessarily results	736
492.	Corporations bound to the same degree of care as natural persons — degree of care	738
493.	Not insurers against all casualties	739
494.	Care required of railroad corporations in relation to engines, cars, track, etc.	741
495.	Duty of railway company as to stations	751
496.	Instances of negligence where the corporation was held liable	751
497.	Duty of railroad corporation	754
499.	Injuries received in getting upon a train	760
500.	Accommodations — contributory negligence	761
501.	Duty to passengers	762
502.	Grounds upon which liability is predicated	763
503.	Liability for willful wrongs of agents	767
504.	Liability of railroad corporations for delay in running trains	775
505.	Liability for negligence in constructing or repairing railroads, or for nuisances	677
506.	Engines and machinery	782
507.	Application of the maxim *sic utere tuo ut alienum non lædas*	783
508.	Contributory negligence	784
509.	Consequential damages	785
510.	Injury to persons and property by running of trains	786
511.	Trespassers on the tracks	791
512.	Different rule as to children	792
513.	Injuries to animals	793
515.	Instances of liability for other torts of servants	795
516.	Liability to indictment	796

TABLE OF CASES CITED.

PAGE.

Aaron v. Sec. Ave. R. Co. 469
Abbey v. Chase 297, 500
Abbot v. American Hard Rubber Co. 215, 218, 222, 524
Abbott v. Aspinwall 112
Abbot v. Baltimore Steam Jack. Co 359
Abbott v. Hermon 395, 403
Abbott v. Merriam 303
Abby v. Billups 282, 337
Aberdeen Female Acad. v. Aberdeen 649
Aberdeen Rwy. Co. v. Blaikie 250
Ackerman v. Desha Co. 675, 678
Ackerson v. Erie R. Co. 473
Acome v. Am. Min. Co. 504
Adams v. Cole 732
Adams v. Mayor, etc 413
Adams v. Wicassett Bank 40
Adler v. Milwaukee, etc., Co. 537, 664, 669
Adley v. Whitestable 413
Adriance v. Roome 227, 289, 431
Aetna Ins. Co. v. Maguire 289
African M. E. Church v. Duru 222
African Soc. v. Varick 26
Aggs v. Nicholson 385
Aggo v. Nicholson 350
Agra & Masterman Bk, In re 350
Agricultural Bk. v. Burr 34, 90, 181
Agricultural Bk. v. Commercial Bk. 346
Agricultural Bank v. Robinson 181
Alabama Bk. v. Conregys 316
Ala., etc., R. Co. v. Kemy 566
Ala. & Tenn. R. Co. v. Kidd 433
Ala. L. Ins. Co. v. Smith 387
Albany v. Cunliff 286
Albany Street, Matter of 579
Albert v. Savings Bank 176, 359, 434, 450
Aldebert v. Leaf 521
Alden v. N. Y Cent. R. Co. 741
Alden v. Pearson 771
Alderley v. Storm 112
Alderman v. Finley 505
Aldrich v. Boston, etc., R. Co. 773, 795
Aldrich v Drury 578
Aldrich v. Palmer 469
Aldrich v. Press Printing Co. 716, 796
Alexander v. Baltimore 569
Alexander v. Berney 25
Alexander v. Cent. R. Co. 522
Alexander v. Sizer 285, 296
Alexandria Bk. v. Bk. Columbia 410
Alford v. Miller 219
Alfridson v. Ladd 282
Allison v. Chandler 466
Allnut v. Inglis 51
All Saints' Church v. Lovett. 19, 24, 256, 652
Allton v. Mulledy 282
Allyn v. Boston & A. R. Co. 786, 787, 788
Allegheny v. McClurkan 295, 355
Allegheny Co. v. Cleveland 560
Allen v. Buchanan 42, 44

PAGE.

Allen v. Curtis 204, 513, 516
Allen v. Drew 690
Allen v. London & S. Western Rwy. Co. 451, 721
Allen v. McKeen 40, 45
Allen v Montgomery R. Co. 148, 388, 631
Allen v. Pegram 113
Allen v. Sewall 112, 114
Alton v. Mulledy 337
Alton, etc., R. Co. v. Dietz 32
Althorpf v. Wolfe 480
Amant v. Turnp. Co 528
Ambergate, etc., Ry. Co. v. Mitchell 103
America Bk. v. McNiel 97, 163, 191
American Bk. v. Embury 336
American Colonization Soc. v. Gartriel. 485
American Express Co. v. Sands 771
American Fire Ins. Co. v. Pringle 645
American Ins. Co. v. Oakley 395, 403, 410
American, etc., R. Co. v. Miles 257
American R. Frog Co. v. Haven 106, 321, 685
Ames v. Palmer 642
Amesbury v. Ins. Co. 414
Amesbury Woolen Man. Co. v. Amesbury 697
Amey v. Allegheny City 282
Ammant v. New Alexandria, etc., R Co 638
Amory v. Hamilton 295
Amsden v. Dubuque 605
Anacosta Tribe v. Murbach 417
Anclent City Club v. Miller 483
Anderson v. Coonley 272
Anderson v. Kanawha Coal Co 37
Anderson v. Kerns Draining Co 571
Anderson v. Longden 232, 280
Anderson v. Newark, etc., R. Co. 180
Anderson v. Newcastle R. Co. 671
Anderson v. Nicholas 93, 195, 532
Andover T. Co. v. Gould 141
Andover Turnp. Co. v. Hay 410
Andrews v. Kneeland 272
Andrews v. Ohio, etc., R. Co. 133
Andrews v. Union Ins. Co. 423
Androscoggin, etc., R. Co. v. Stevens. 694
Andrus v. Howard 795
Angell v. Silsbury 542
Anglo-Australian Co. v. British, etc., Co. 547
Anglo-California G. M. Co. v. Lewis 152
Annapolis & E. R. Co. v. Gantt 462
Anthony v. Cleveland 355
Anthony v. Leftwick 526
Antisdell v. Chic., etc., R. Co. 793
Appleby v. Mayor 287, 355
Applegate v. Earnest 638
Appling v. Bailey 674
Arberry v. Beavers 673
Arents v. Commissioners 353
Argent v. Dean & Chapter St. Paul 454
Argenti v. San Francisco 375, 381

PAGE.

Arkenburg v. Wood 203
Armington v. Barnett.....566, 569, 577
Arms v. Conant 266, 330, 350
Armstrong v. Cooley..... 795
Arnold v. Mayor 269, 395
Arnold v. Ruggles.....181, 183, 189, 532
Arnold v. Suffolk Bk.....96, 198, 200
Arrington v. Van Houton..... ... 673
Arthur v. Commercial Bk.....215, 387
Arthur v. Griswold..... 241
Artz v. Chicago, etc., R. Co..... 788
Ash v. Cummings 573
Ash v. Doggy. 527
Ashby v. White..... 482
Ashtabula, etc., R. Co. v. Smith, 32, 118, 121
Ashton v. Atlantic Bk.. ....175, 522
Asiatic Banking Corp., Ex parte 350
Aspinwall v. Ohio, etc., R....328, 346, 560
Aspinwall v. Torrance 302
Atchafalaya Bk. v. Dawson 650, 654
Atchison v. Davidson 542
Atchison, etc., R. Co. v. Stanford.462, 469
Athenaeum L. Assurance Co., ex parte, 439
Athenaeum L. Ass. Co. v. Pooley..209, 233
Athol Music Assoc. v. Carey... 131
Atkins v. Albree..... .....156, 161
Atkins v. Gamble 93
Atkins v. Hunt 12
Atkinson v. R. R. Co..... 528
Atlantic Cotton Mills v. Abbott 119
Atlantic Delaine Co. v. Mason... 141, 317
Atlantic Ins. Co v. Sanders 312
Atlantic Mut. F. Ins. Co. v. Young... 285
Atlantic, etc., R. Co. v. Comm 190
Atlantic, etc., R. Co. v. Dunn.468, 474, 762
Atlantic, etc., R. Co. v. Johnston . .. 256
Atlantic, etc., R. Co. v. Sullivant. ... 592
Atlantic, etc., Tel. Co. v. Commonwealth..... 155
Atlas Bk. v. Nahant Bk 537
Atterberry v. Knox 487
Attica Bk. v. Manufac. Bk 430
Atty.,Gen., Ex parte 616
Atty.-Gen. v. Barstow..... 655
Atty.-Gen. v. Bay State Min. Co..... 690
Atty.-Gen. v. Birmingham..... 780
Arty.-Gen. v. Boston, etc., R. Co.... 560
Atty.-Gen. v. Bradford Nav. Co... 779, 780
Atty.-Gen. v. Chic., etc., R. Co..... 47
Atty.-Gen, v. Clerg. Soc 659
Atty -Gen. v. Eastlake 516
Atty.-Gen. v. Evart Booming Co.... ... 574
Atty.-Gen. v. Hudson R. R. Co.. 779
Atty.-Gen. v. Ins. Co.. ..... 342, 383, 387
Atty.-Gen. v. Metrop. Bd. of Works .. 780
Atty.-Gen. v. Norwich, etc..... 516, 653
Atty.-Gen. v. Petersburgh, etc., R. Co. 612, 621, 658
Atty.-Gen. v. Siddon 435
Atty.-Gen. v. Tudor Ice Co 373, 653
Atty.-Gen. v. Utica Ins. Co..... 611
Atty.-Gen. v. Wilson 242
Attwood v. Small 437
Atwater v. Woodbridge..... 40
Atwood v. Merryweather..... 514
Auburn Academy v. Strong 413, 421
Auburn Plankroad Co. v. Douglass.. 339
Augusta Bk. v. Conrey..... 293
Augusta Bk. v. Augusta..... 711
Augusta Bk. v. Earl.. 26, 225, 329, 338, 347, 384, 487, 489, 495, 623
Augusta Bk. v. Hamblet... ..... 217, 420
Aurora v. West 41, 69, 351, 353
Aurora, etc., R. Co. v. Miller..... 35
Aurora T. Co. v. Holthouse..... 649
Austin v. Daniels..... 303
Austin v. Murray..... 416
Auter v. Miller 526
Aylesbury R. v. Mount 173

PAGE.

Babb v. Reed..... 12
Babcock v. Beman..... .. .... 286, 297
Babcock v. N. J. Stock Yd. Co..... . 70
Bach v. Pac. Mail Steam S. Co..... 203, 366
Bachman, In re..... 171
Backus v. Lebanon 42, 44, 566
Bacon v. Robertson.... ..... 664, 668
Badger v. Bank of Cumberland... 233, 274, 277, 394, 410
Bagshaw, Ex parte.... 545
Bagshaw v. Eastern N. R. Co. 508, 514, 521
Bailey v. Hannibal, etc., R. Co..... 178
Bailey v. Hollister 114
Bailey v. Methodist Epis. Ch 649
Bailey v. Miltenberger..... 565
Bailey v. R. Co.. 179
Bailey v. Strohecker 687
Bailiffs, etc., of Ipswich v. Martin 269
Baird v. Graham 731
Baker v. Administrator 535
Baker v. Backus 71, 113, 612, 652, 671
Baker v. Bolton..... 479
Baker v. Freeman 336
Baker v. Cotter..... .. 239
Baker v. Johnson..... ..... 583, 597, 605
Baker v. Utica..... 304
Baldwin v. Bk. Newburgh 274, 277
Balfour v. Ernest 516
Ball v. Lappins 675, 678
Ballou v. Farnum..... ... 469
Ballou v. Talbot..... ..... 283, 300
Baltimore v. Baltimore 356
Baltimore v. Baltimore, etc., R. Co ... 66, 696, 698
Baltimore v. Board of Police..... .. 41
Baltimore v. Norman..... ..... 105, 458
Baltimore v. Pittsburgh, etc., R. Co... 63
Baltimore v. Reynolds 338, 380
Balt & O. R. Co. v. Blocher.. 474, 765, 774
Baltimore, etc., R. Co. v. Gallahue.482, 560
Baltimore, etc., R. Co. v. Gleun..... 560
Baltimore, etc., R. Co. v. Lowell 191
Baltimore, etc., R. Co. v. Marshall Co. 653
Balt., etc., R. Co. v. Nesbit..... . 594, 602
Baltimore, etc., R. Co. v. State.. 480, 791
Baltimore, etc., R. Co. v' Supervisors 560
Baltimore, etc., R. Co. v. Wheeling ... 203, 522
Baltimore, etc., R. Co. v. Woodruff .. 451
Baltzen v. Nicolay..... .....299, 301
Bancroft v. Consen..... 174
Banet v. Alton, etc., R. Co 63
Bangate v. Shortridge..... 164
Bangor R. Co. v. McComb..... 605
Bangor, etc., R. Co. v. Smith ...32, 64, 482, 689, 694
Bangs v. McIntosh 535
Bank v. Biningsville Cotton Co..... 285
Bank v. Chambers..... 520
Bank v. Chillicothe 343
Bank v. Comm 339
Bank v. Farnington 355
Bank v. Hammond..... 381
Bank v. Kennedy.. 664
Bank v. Lanier 190, 413, 420, 532
Bank v. Lockwood 669
Bank v. St. John 219
Bank v. Wrenn..... 654
Bank of Ala. v. Conegys 322
Bank of Cape Fear v. Edwards 697
Bank of Columbia v. Patterson.... . . 396
Bank of Commerce's Appeal 96
Bank Comrs. v. Bank. 657
Bank of Middlebury v. Rutland, etc., R. Co..... 324
Bank of Mo. v. Merchants' Bk..... 671
Bank of Mo. v. Snelling..... 678
Bank of Kentucky v. Schuylkill Bk... 273
Bank of St. Mary v. St. John..... 245

PAGE.

Bank of S. Carolina v. Hammond..... 371
Bank of State v. Bk. of Cape Fear.... 42
Bank Tax Case.. 711
Bank of U. S. v. Dandridge.31, 230, 279, 396, 418
Bank of U. S. v. Davis..... 457
Bank of U. S. v. Dunn..... 217
Bank of U. S. v. Lyman..... 34
Bank of U. S. v. Planters' Bk. of Ga.. 79
Bankhead v. Brown 570, 577
Banking Co. v. Fisher 352
Banks v. Poitoux 371, 396
Banks, etc., v. St. John... 520
Bannon v. Baltimore & O. R. Co.469, 474, 792
Banorgee v. Hovey 337
Baptist Church v. Mulford.271, 395, 403, 410
Barclay v. Quicksilver Min. Co..... ... 547
Barclay v. Talman. 659
Barcus v. Hannibal, etc., P. R. Rubber Co 266
Bard v. Poole 328
Bardstown, etc., R. v. Metcalf.339, 387, 631, 635
Bargate v. Shortridge, 188, 281, 382, 434, 450
Barges v. R. Co..... 757
Barker, Ex parte.... 320
Barker v. Allen..... .. 296
Barker v. Mechanics Fire Ins. Co. 283, 386
Barnard v Stevens 458
Barnard v Vermont & Mass. R. Co... 179
Barnes v. Barnes..... 13
Barnes v. Ontario Bk.. ..... 344, 386
Barnet v. Alton, etc., R. Co 147
Barnet v. Smith... 444
Barnum v. Blackstone Canal Co 26
Barrett v. Mead..... .... 35, 671
Barrett v. Schuyler Co..... 351
Barrington v. Washington Bk 233, 374
Barrow v. N. & C. T. Co.... 373
Barrows v. Mass 676
Barrows v. Nat. Rubber Co..... ... 194
Barry v. Croskey 446
Barry v. Merchants Exch..... 334, 342, 386
Barstow v. City R. Co..... 257
Bartlett v. Kinsley..... .. 508
Bartlett v. Medical Soc 83, 89
Bartlett v. Pentland 22
Bartlett v. Tucker 300
Barton v. New Orleans..... 260, 303
Barton v. Plankroad Co... 251
Barton v. Port Jackson Plank R. Co.. 244, 246, 390
Bartonshill Coal Co. v. Reid 795
Barwick v. Eng. Joint Stock Bank 438, 441, 447, 724
Bass v. Chicago, etc., R. Co 783
Bassett v Carlton..... .. 482
Bassett v. Porter. 13
Bassett v. St. Albans, etc., Co.... 151, 171
Basshor v. Dressel 32
Bateman v Mayor, etc..... ... 335
Bateman v. Mid-Wales R. Co 350
Bates v. Androscoggin, etc., R. Co. 155, 179
Bates v. Bank 271, 358, 410
Bates v. Boston, etc., R. Co 405
Bath v. Miller..... ..... 388, 631, 634
Battershall v. Davis 131
Battle v. Davis 543
Bavington v. P. & S. R. Co 121, 124
Baxter v. State 392
Baxter v. T. & B. R. Co... ..... 788, 789
Bayard v. Farmers, etc., Bk..... 105, 176
Bay City v. State Treasurer..... 685
Bayless v. Orne..... 241, 303, 525, 654
Bayley v. Ry. Co..... ..723, 738, 762
Beach v. Fulton Bank.... 338, 436, 457, 717, 796
Beach v. Smith 116
Beard v. Conn. & Pass. R. Co..... 753

PAGE.

Beardsley v. Ontario Bank 530, 638
Beardsley v. Smith 113
Beardsley v. Swann. 408
Beaston v. Farmers' Bank ... .219, 340
Beaty v. Knowler 66, 339
Beaty v. Marine Ins. Co..... 356
Beavan v. Earl of Oxford. 92
Beck v. Kantorowitz 139
Beckel v. Union Tp. 713
Beckett v. Houston.. 176
Beckett v. Upton 779
Beckwith v. Windsor Man. Co..... 407
Bedell v. L. I. R. Co..... .....782, 783
Bedford, etc., R. Co. v. Bowser....124, 127, 218, 247
Beekman v. Sar., etc., R. Co..552, 561, 576, 580
Beene v. Cahawba, etc., R. Co.....146, 148
Beers v. Housatonic R. Co..... 451
Beers v. Phœnix Glass Co..... '274
Beisiegel v. R. Co... 788
Belknap v. Boston, etc., R. Co....468, 471, 473
Belfast, etc., R. Co. v. Moore..... 131
Bell v. Midland, etc., R. Co..... 474
Bell v. Shibley..... 543
Bellefontaine, etc., R. Co. v. Snyder. 792
Bellmeyer v. Independent Dist. of Marshaltown..... 68
Bellows v. Todd..... 266
Belmont v. Erie R. Co..243, 245, 256, 516, 535
Beloit Bank v. Beal..... 294
Beman v. Rufford..... .. ..518, 634
Bend v. Susquehanna Bridge Co...171, 173
Benjamin v. Elmira, etc., R. Co....388, 631, 639
Benneson v. Bill 544
Bennett, Ex parte..... 172
Bennington Iron Co. v. Rutherford. .. 504
Benoist v. Carondelet... .....402, 407
Benson v. Albany 713
Benson v. Heathorn 254
Bentinck v. Norf. Estuary Co.. 590
Bentley v. Craven..... 139
Berry v. Yates... 359
Berryman v. Cin. Southern Ry. Trustees..... 187
Berthin v. Crescent 43
Bethany v. Sperry..... 313
Bethel Bank v. Pahquioque Bank..... 664
Betts v. Menard. 356
Beverly v. Lincoln Gas-light Co....404, 485
Bickering v. Ilfracombe Ry. Co 92
Bickford v. First Nat. Bk..... 444
Biddis v. James 507
Bigelow, matter of 197
Bigelow v. Hillman 426
Bigelow v. North Mo. R. Co 793
Bill v. Dareuth, etc., R. Co 303
Bingham v. Weiderwax 667
Binghamton Bridge Case 44, 29, 563
Binney v. Plumley 483
Bird v. Bird's Patent, etc , S. Co 516
Bird v Daggett 285
Birkenhead, etc., Rwy. Co. v. Brownrigg 79
Birkett v. Whitehaven Junct. 752
Birmingham, Bristol & Thames R. Co. v. Locke 148
Bish v Bradford 134
Bish v. Johnson..... ..... 141, 553
Bishop v. Brainerd..... 13, 548, 554, 556
Bishop v. Holcomb..... 166
Bissell v. Mich. Southern, etc., R. Co. 226, 277, 279, 365, 375, 383, 434, 517, 716
Black v. Auditor 675
Black v. Del. etc., R. Co..... 143, 215, 223, 311, 387, 516, 548, 550, 552, 660
Black v. United Co 339

PAGE.
Black v. Zacharie 91, 96, 164, 198, 429
Blackburn's Case 448
Black River, etc., R. Co. v. Barnard ... 15
Black River, etc., R. Co. v. Clarke. . 116, 132, 505
Blackstock v. N. Y., etc., R. Co .. 434, 450
Black & White Smith Soc. v. Vandyke. 85, 89
Blackwilder v. Loveless 526
Bladen v. Phila..... 260
Blades v. Free..... 301
Blair v. Rutherford 35, 120, 139
Blake v. Ferris 733
Blake v. Hinkle..... 656
Blake v. Livingston Co 351
Blake v. R. R. Co..... 479, 652, 664, 670
Blake v. Rich..... 578, 588
Blakemore v. Glamorganshire Canal Nav. Co..... 604
Blanchard v. Blackstone. 271
Blanchard v. Kaull 255, 256
Bland's Case 609
Blanding v. Burr 41
Blatchford v. Ross 248, 525, 548, 553
Blight v. Brent..... 184
Bliss v. Anderson..... 204, 516
Bliss v. Hosmer..... 564
Bliss v. Matteson..... 248, 546
Blodgett v. Morrill.. ..... 134, 136, 443
Blood v. Goodrich..... 293, 337
Bloodgood v. Mohawk R. Co..... 433, 458, 569, 592, 597, 605
Bloomfield Gas Co. v. Richardson 571
Blyth v. Birmingham Water Works Co. 740
Board, etc., v. Scearce 46
Board of Education v Greenebaum... 401
Board of Liquidation v. McComb 679
Boardman v. Cutter..... 93
Bodine v Exchange F. Ins. Co 288
Bodwic v. Fennell..... 417
Bogardus v Rosendale Manuf. Co..... 114
Bohannon v. Binns 654, 671
Boland v. Mo., etc., R. Co..... 792
Bolt v. Stennett..... 51
Bolton v. Throgmorton 417
Bond v. Mount Hope Iron Co 176
Bond v. Poole..... 350
Bonaparte v. Camden, etc., R. Co..... 561, 571, 605
Bonellis Tel. Co., Re 323
Bonesteel v. Mayor, etc 380
Bonk v. Clark..... 114
Bonnell v. Wheeler..... 241
Bonner v. State..... 678
Booe v. Junction R. Co. 140
Booker, Ex parte 134, 202, 447
Boon v. Chiles 508
Boon v. Utica 355
Booth v. Bunce 547
Booth v. Clark 543
Booth v. Farmers & Mechanics Bk. .. 434
Bordentown, etc., T. Co. v. Imlay. .. 132
Boston Glass Manuf. Co. v. Langdon.. 73, 653, 657, 659, 666
Boston Mill Dam Co. v. Newman.. 569, 571, 573, 578
Boston Overseers, etc., v. Sears..... 90
Boston, etc., R. Co. v. Comm 155, 161, 690
Boston, etc., R. Co. v. Gilmore... 530, 637
Boston, etc., R. Co. v. Midland R. R. Co..... 618
Boston, etc., R. Co. v. Salem, etc., R. Co 58. 563, 566, 649
Boston, etc., R. Co. v. Wellington.... 142
Boston Water Power Co. v. Boston, etc., R. Co 552, 563, 568
Bosworth v. Budgen..... 417
Bosworth v. Hearne 417

PAGE.
Boulard v. Calhoun 473
Bow v Allenstown 13
Bowen v. Irish Presb. Cong..... 411
Bowen v. Morris 283
Bowering v. Shepherd..... 156
Bowler v. Lane..... 473
Bown v. County of Somerset..... 280
Bowyer v. Giles, etc., Turnpike Co.... 34
Boyd v. Blankman..... 249
Boyd v. Chesapeake..... 530
Boyd v. Hall 108
Boyd v. Plumb 277
Boyden v. Brookline..... 304
Boylan v. Hagnel..... 93
Boyland v. Mayor. 355
Boynton v. Turner..... 446
Brackett v. Lubke..... 732
Brace v. Ormond..... 509
Bradlee v. Boston Glass Co.....282, 284
Bradley v. Ballard.....357, 373, 375, 386
Bradley v. Boston R. Co..... 451
Bradley v. Holdsworth 154, 184
Bradley v. N. Y., etc., R. Co ... 39, 58, 344
Bradley v. N. Y., etc., R. Co...339, 569, 571
Bradley v. Richardson..... 483
Bradly v. Buffalo, etc., R. Co..... 793
Bradshaw v. Rogers 597
Bradstreet, Ex parte..... 677
Bradstreet v. Bank of Royalton..... 324
Bradt v. Benedict..... 659
Brady v. Mayor, etc... ....287, 334, 355, 394
Brainard v. Clapp..... 587
Brainerd v. N. Y., etc., R. Co..... 351
Brainerd v. Peck.. ..... 388, 632
Branch Bank Ala. v. Collins..... 260
Branch State Bank v. Knoop..... 698
Brand v. R. Co..... 762, 791
Brandon Iron Co. v. Gleason..... 657, 659
Branham v. San Jose..... 302
Brannon v. Baltimore R. Co 474
Branser v. New Eng. F. Ins. Co... ... 486
Brass v. Worth..... 234, 294
Bredin v. Dubarry..... 237, 296
Breedlove v. Martinsville R. Co.... .. 152
Breedlove v. Wamack..... 446
Brendell v. Buffalo, etc., R. Co..... 787
Brent v. Bank..... 198, 430
Brewer v. New Gloucester 40
Brewer v. Prop., etc... 513
Brewster v. Hartley..... 319, 431
Brewster v. Hough..... ...690, 698
Brewster v. Sime..... 176
Brewster v. Stratman 214
Brick Pres. Church v. Mayor 417, 419
Brickner v. R. Co..... 794
Briggs v. Penniman.....114, 671
Briggs v. Johnson 678
Brightwell v. Mallory.. .... 158, 189
Brigham v. Mead 99
Brignoli v. Chic., etc., R. Co.... .750, 751
Bridge Co. v. Grand Junction R. Co .. 459
Bridge Co. v. Hoboken Co.. .....339, 563
Bridge Co. v. Loomis 469
Bridge Co. v. Lowell 563, 566
Bridgeport v. Bishop..... 695
Bridgeport v. R. R. Co..... 67, 286, 355, 711
Bridgeport City Bank v. Empire, etc., R. Co..... ...167, 190, 383, 387
Bridges v. N. London R. Co..... 758
Brinkerhoff v. Brown 659
Brinley v. Mann 411
Bristol v. Chic , etc., R. Co..... 694
Bristol, etc., R. Co. v. Locke 146
British American Land Co. v. Ames... 485
British Sugar Ref. Co., Re.....313, 322
Broadbent v. Imp. Gasl. Co..... 779
Broadnox's Case..... 417
Broadway Bank v. McElrath .. 91, 190, 201
Broadwell v. Broadwell 527

PAGE.

Brockway v. Allen....283, 297
Brokaw v. N. J., etc., R. Co....442, 450, 457
Bromley v. Coxwell 291
Bronson Agricultural, etc., Ass'n. v. Ramsdell 358
Brooklyn C. R. Co. v. Brooklyn City R. Co.... 649
Brooklyn Grand Road Co. v. Slaughter, 335
Brooks Paper Works v. Willet 485
Brookville T. Co. v. McCarty....654, 671
Broughton v. Manchester Water Works Co 335
Brouwer v. Hill 542
Brown v. Beatty....561, 571
Brown v. Leckie 444
Brown v. McGregor.... 731
Brown v. N. Y. C. R. Co.... 762
Brown v. Pac. Mail Steam S. Co.... 213, 331
Brown v. Purvience 795
Brown v. Somerset 232
Brown v. S. Kennebec Ag. Soc.... 458
Brown v. Union Ins. Co.... 113
Brown v. Van Dyke 204, 303, 513
Brown v. Winnisimmet Co....233, 357
Browne v. Providence, etc., R. Co 793
Browning v. Morris 373
Brownlee v. Ohio, etc., R. Co..134, 443, 505
Brownlow v. Metropolitan Board 452
Bruce v. Lord....285, 297
Bruce v. Smith.... 97
Bruff v. Mali 241, 255
Bruffett v. G. W. R. Co.. 215, 528, 649, 651, 659
Bruning v. New Orleans, etc., Bank Co.. 561
Bryan v. Reynolds.... 307
Bryand v. Goodman 316
Bryant v. Rich.... 720, 762, 773, 795
Bryon v. Carter.... 197
Buchanan v. Hamilton 522
Buchanan v. Upshaw 446
Buck v. Lockport.... 675
Buckfield R. Co. v. Irish....130, 142
Buckley v. Derby Fishing Co.... 363
Buckley v. Briggs 383, 401, 410
Buckmaster v. Consumers' Ice Co.... 101
Buckmaster v. Gt. E. R. Co 775
Bucksport, etc., R. Co. v. Buck.... 140
Bucksport, etc., R. Co. v. Dameson ... 130
Buckwater v. Blackrock Bridge Co.... 605
Buel v. Buckingham Co...248, 255, 266, 325
Buffalo v. Kortright 101
Buffalo, etc., R. Co. v. Brainard.... 569
Buffalo, etc., R. Co. v. Dudley..63, 65, 117, 130, 135, 180, 443
Buffalo, etc., R. Co. v. Hatch 34, 138
Buffalo, etc., R. Co. v. Lampson..248, 388, 631
Buffalo, Bayou, etc., R. Co. v. Terris.. 566
Buffett v. G. W. R. Co.. 44
Buffett v. Troy & B. R. Co ...286, 339, 751
Bulkley v. Derby Fishing Co.. 239, 338, 403
Bullard v. Bank.... 92, 413, 416
Bullard v Kinney 12
Bullock v. Curry.... 80
Bulowe v Charleston 690
Bundy v. Birdsall.... 483
Burbridge v. Morris 252
Burden v. Stein.... 571
Burgess v. Clark 573
Burgess v. Pue.... ....274, 317
Burgess v. R. Co. 752, 753
Burke v. Broadway, etc., R. Co.... 792
Burke v. Gt. West. R. Co.... 777
Burke v. Norwich, etc., R. Co.... 731
Burke v. Smith.... ....218, 669
Burkinshaw v. Birmingham & Oxford Ry. Co.... 604
Burlington R. Co. v. White.... 149

PAGE.

Burnes v. Penne.... 448
Burnes v. Pennel.... 22
Burnes v. Phenix Glass Co.... 343
Burnett, Ex parte 416
Burns v. Cork, etc., R. Co.... 741
Burr v. McDonald 387, 407
Burr v. Wilcox. 114, 138, 172
Burrill v. Nahant Bank . 217, 232, 239, 407
Burroughs v. North Carolina R. Co.... 154
Burroughs v. Richmond 353
Burrows v. Erie R. Co.... 756
Burrows v. Smith....134, 140
Burt v. Farrar. 30, 117
Burton, In re 680
Busey v. Hooper 32 95
Bush v. Shipman.... 649
Bush v. Steinman 435
Bushwick, etc., Co. v. Ebbets....32, 66
Butchers' Ben. Soc. 89
Butler v. Cornwell Iron Co.... 247
Butler v. Dunham.. 713
Butler v. Pres. of College of Physicians.... 24
Butler v. Watkins 445, 447
Butterfield v. Western, etc., R. Co ... 788, 786
Butternuts, etc., Turnp. Co. v. North. 126
Butterworth v. O'Brien 543, 669
Buttrick v. Holden.... 175
Butts v. Wood... 242, 248, 252, 260, 513, 523
Butz v. Mass. 714
Butz v Muscatine....652, 713

Cabot, etc., Bridge Co. v. Chapin..119, 121
Cady v. Potter 162
Cahill v Kalamazoo Mut. Ins. Co.. 31, 286, 413, 425, 654, 656, 666, 671
Cain v. Heard.... 337
Calais Steamboat Co. v. Van Pelt.... 175
Calder Nav. Co. v. Pilling.... 423
Caldwell v. Murphy 469
Caldwell v. N. J. Steamb. Co. 468, 471, 473
Calhoun v. Richardson 241, 303
California Nav. Co. v. Wright 504
California, etc., R. Co. v. Butte Co.... 685
California Tel. Co. v. Alta Tel. Co. ... 563
Callender v. Marsh.... 597
Camblos v. Phila., etc., R. Co.... 47
Camden & A. R Co. v. Briggs 339
Camden, etc., Co. v. Swede Iron Co.. 486
Came v. Brigham 343
Cammeyer v. German Churches 323
Camp v Byrne.. 505
Campbell v. Poultney.... 331
Canal Appraisers v. People 598
Canal Bridge v. Gordon.... 233
Canal Co. v. Bonham 528
Canal Co. v. R. R. Co..650, 654, 659, 666, 671
Cannon v McNab.... .... 371, 391
Carbon Iron Co. v. Carbon County... 695
Carey v. Cinc., etc., R. Co.....443, 504, 671
Carey v. Giles 273
Carhart v. Auburn Gas L. Co. 779
Carlisle v. Evansville, etc., R. Co.. ... 136
Carlisle v. Terre Haute, etc., R. Co... 552
Carlisle F. Nat. Bk. v. Graham.... 455
Carman v. Steubenville, etc., R. Co.... 458, 737
Carneal v. Banks. 495
Carpenter v. Farnsworth.... 296
Carpenter v. Mercantile Bk 505
Carpenter v. N. Y., etc., R. Co ... 155, 159
Carr v. Chartier's Coal Co 308
Carr v. Le Fevre.... 114
Carr v. St. Louis.... 308, 413, 420, 423
Carrington v. Wycombe Ry. Co.... 590
Carroll v. East St. Louis.... .... 348, 373
Carroll v. Hinkley 113
Carson v. African Co.... 520

PAGE.

Carson v. Coleman 566
Cartan v. Father Matthew, etc., Soc .. 415
Carter v. Burley... 392
Carter v. Dean of Ely..... 401
Carter v. Howe Machine Co 453
Cary v. Cleveland, etc., R. Co.... 375
Cary v. Matthews 267
Caryl v. McElrath 654
Case v. Citizens' Bk 194, 195
Case v. Dillon 711
Case v. Mechanics' Bk..... 730
Case v. North. Cent. R. Co..... 782
Cass v. Dillon 80
Castellan v. Hobson 156
Castleman v. Holmes... 113
Castro v. Howe Machine Co 453
Caswell v. Boston & W. R. Co 757
Cathcart v. Robinson..... 527
Cathorn v. Towle 113
Catlin v. Bell... 291
Catlin v. Eagle Bk..... 540 657
Catskill Bk. v. State 277
Cayuga Bridge Co. v. Magee..... 58
Cayuga, etc., R. Co. v. Kyle... 34
Cazeaux v. Mali..... .. 207, 242, 255
Center T. Co. v. McConahy 133, 505
Cent. T. Co. Valentine 119
Central Bk. of Georgia v. Gibson..... 559
Cent. Bank of Georgia v. Little..... 79
Cent. Bk.v. Empire Stone Dressing Co 383
387
Cent. Bridge v. Lowell..... 44, 552
Cent Gold Mining Co. v. Platt 68
Cent., etc., R. Co. v. Baches.. 480
Cent., etc., R. Co. v. Clemens 137
Cent , etc., R. Co. v. Collins 514
Cent., etc., R. Co. v. Dixon 788
Cent., etc., R. v. Georgia 554, 698
Cent., etc., R. Co. v. Kisch...133, 441, 448
Cent , etc., R. Co. v. Ward 201
Cent., etc., R. Co. v. Weldon..... 480
Cincinnati v. Stone.... 737
Chaffee v. Granger..... 335
Chaffin v Cummings..... 181
Chamberlain v. Ashtabula, etc., R. Co. 121
Chamberlain v. Chandler..... 762, 770, 774
Chamberlain v. Compton 414, 417
Chamberlain v. Dover.. 317
Chamberlain v. Huguenot Mfg. Co. . 36
Chamberlain v. Painesville, etc., R.
Co... .. ..118, 124, 127, 312, 315
Chamberlin v. Huguenot Mfg. Co..... 34
Chambers v. Ohio Life Ins. & Trust
Co..... 736
Chambers v. St. Louis 373
Chambersburg Ins. Co. v. Smith..103, 164
178, 188
Champion v. White 446
Chandler v. Monmouth 303
Chapin v. Vermont, etc., R. Co..... 351
Chapin v. Sullivan R. Co..... 578
Chaplin v. Canada..... 483
Chapman v. Mad River, etc., R. Co... 124
375
Charles River Bridge v. Warren Bridge, 29
39, 56, 61, 339, 650
Charlotte, etc., R. Co. v. Blakely..116, 147
Charlton v. Newcastle & Carlisle Ry.
Co..... 548
Chase v. Blackstone Canal Co..... 677
Chase v. Sycamore & C. R. Co.. ...90, 98
Chase v. Vanderbilt. 213, 216, 556
Chautauqua County Bank v. Risley... 358
Cheltenham, etc., R. Co. v. Daniel... 172
Cheltenham, etc., R. Co. v. De Medina, 173
Chenango Bridge Co. v. Bing. Bridge
Co..... 39
Cheney v. Lafayette, etc., R. Co... .. 259
Cheraw, etc., R. Co. v. White..... 141

PAGE.

Chesapeake, etc., Co. v. Balt , etc.,
R. Co.. .. ..552, 568
Chesapeake, etc., Co. v. Dulany 107
Chesapeake, etc , Co. v. Key..... 28
Chesapeake, etc., Co. v. Knopp....270, 394
Chester v. Dickerson..... 251
Chester Glass Co. v. Dewey...34, 90, 98, 131
181, 305, 505, 653
Chestnut Hill Co. v. Rutter....394, 396, 458
Chest v. App. Tax Court 698
Chew v. Bank Baltimore 105
Chicago v. Langlass 469
Chicago v. Mayor 480
Chicago Building Soc. v. Crowell....233, 295
376
Chicago, etc., R. Co. v. Allerton.. 209
Chicago, etc., R. Co. v. Atty.-Gen'l.... 47
Chicago, etc., R. Co. v. Borough of
Fort Howard..... .....530, 637
Chicago, etc., R. Co. v. Coleman..... 275
Chic., etc., R. Co. v. Fears 789
Chic. R. Co. v. Fell 458
Chic., etc., R. Co. v Gregory 792
Chic., etc., R. Co. v. Hazzand.... 756
Chic., etc., R. Co. v. Howard 244, 246
248, 484, 501, 508, 664
Chic., etc., R. Co. v. Iowa 48
Chic., etc., R. Co. v. McKean 786
Chic., etc., R. Co. v. Moffit 554
Chic., etc., R. Co. v. Patchin 583, 587
Chic., etc., R. Co v. Payne..... 792
Chic., etc., R. Co. v. People..... 680
Chic., etc., R. Co. v. Quaintance 784
Chic., etc., R. Co. v. Randolph 756
Chic., etc., R. Co. v. Shannon 480
Chic., etc., R. Co. v. Stumps.... 739
Chic., etc., R. Co. v. Swett..... ... 480
Chic., etc., R. Co. v. Triplett 787
Chic., etc., R. Co. v. Whipple..... 458
Chic., etc., R. Co. v. Williams 457
Child v. Hudson Bay Co... .. 91, 104, 412
Chillicothe Bk. v. Chillicothe 386
Chouteau Spring Co. v. Harris..... 96, 164
188, 429
Christian University v. Jordan..... 237
Christ's Church v. Barksdale... 241
Christ's Church v. Phila..... ... 700
Church Case. 318
Church v. City, etc..... 423
Church v. Imperial, etc., R. Co..... 396
Church v. Slack..... 676
Church v. Sterling..... ..... 233, 239, 295
Church of the Ascension v. Buckhart. 785
Cincinnati v Gwynne 425
Cin. Mut., etc., v. Rosenthal 373
Cin., etc., R. Co. v. Cole... ... ... 29, 47
Cin , etc., R. Co. v. Comrs..... 711
Cin., etc., R. Co. v. Knowlton..... 559
Citizen's Bk. v. Howell..... 346
Citizen's, etc., Ins. Co. v. Lott..... 155
City Bk. Columbus v. Bruce 217
City Council v. Ahrens 421
City Council v. Baptist Church..... 421
City Council v. Moorehead 406, 410
City Council v. Plankroad Co 356
City Hotel v. Dickinson 130, 142, 148
Cit. Mut. F. Ins. Co. v. Sortwell..... 313
Claremont Bk. v. Wood... 623
Clark v. Boston Manuf. Co..... 233
Clapp v. County of Cedar 352
Clark v. Cuckfield Union..... 341, 395, 404
Clark v. Denton 417
Clark v. Des Moines..... 286, 342, 355
Clark v. Dickson 441, 447
Clark v. Eight Ave. R. Co..... 761
Clark v. Farmers', etc., Co. 402
Clark v. Fry..... 737
Clark v. Iowa City 351, 354
Clark v. Janesville..... 352

PAGE.

Clark v. Lecren 414, 417
Clark v. Mayor 780
Clark v. Newsam 473
Clay v. Oakley 300
Clark v. Polk County 287, 355
Clark v. Pratt 280, 405
Clark v. Saybrook 58
Clark v. Van Northwick 272
Clark v. Van Reimsdyk 233, 293
Clark v. Washington 279, 282, 337
Clark v. Woolen Man. Co 407
Clarke v. Benton Manf. Co 308, 410
Clarke v. Imperial Gas Co 407
Clarke v. Rochester 666, 713
Clarke v. Rochester, etc., R. Co 526
Clay v. Rufford 222
Clearwater v. Meredith 143, 548, 550
Clevelands v. Grand T. R. Co 462, 782
Cleaves v. Turnpike Co 131
Cleghorn v. N. Y. Cent., etc., R. Co 474
Clemens v. Hannibal, etc., R. Co 783
Cleveland, etc., R. Co. v. Erie 505, 654
Cleveland, etc., R. Co. v. Robbins 193
Cleveland, etc., R. Co. v. Rowan 479
Cleveland, etc., R. Co. v. Speer 43, 560
Cleveland, etc., R. Co. v. Terry 783
Clinch v. Financial Corp 546
Clinton, etc., R. Co. v. Eason 99
Clippinger v. Hepbaugh 307
Coal Co. v. Blatchford 522
Coates v. Clarence R. Co 780, 782
Coates v. Nottingham, etc., R. Co 178
Coates v. N. Y 420
Coburn v. Boston Papier Mache Man. Co 567
Coburn v. Wheelock 71
Cockburn v. Union Bank 177
Cochran v. Arnold 505
Cockran v. Irlam 290
Cochrane v. Miller 474
Cockle v. S. E. Ry. Co 757
Coe v. Columbus, etc., R. Co 215, 387, 522, 528, 530, 532, 631, 637
Coe v. Johnson 87
Coe v. McBrown 388, 631, 634
Coe v. Pennock 631
Coey v. Belfast, etc., R. Co 178
Coffin v. Rich 46, 113
Cohen v. Wilkinson 517
Coil v. Pittsburgh Female College 134
Colchester v. Goodwin 417
Coleman v. Columbia Oil Co 154
Coleman v. Columbia R. Co 154
Coleman v. Eastern Counties R. Co 339, 383
Coleman v. N. Y., etc., R. Co 457, 762
Coleman v. Sec. Ave. R. Co 248
Coleman v. Spencer 533
Coles v. Bank of England 106
Coles v Bristowe 156
Coles v. Trecoothick 290
College of Physicians v. Lablas 483
Collen v. Wright 299
Collier v. Collier 158
Collins v. Godfrey 265
Collins v. Hammock 368
Collins v. Hatch 414
Collough v. Moss 342
Colman v. Easter, etc., R. Co 516, 523
Colonial Assn. of Ireland v. Bentley 103
Colonial Bk. v. Cherry 243, 245
Colorado & Ind. C. R. Co. v. Farrell 758
Colquitt v. Howard 247
Colt v. Ives 92, 164, 191, 202, 429
Columbia v. Beasly 691
Columbia Bk. v. Patterson 233, 270, 284, 293, 335, 396, 401, 403, 408, 410
Columbia Ins. Co. v. Cooper 289
Columbus, etc., R. Co. v. Farrell 754

PAGE.

Columbus, etc., R. Co. v. Powell 554, 558
Colville v. Ry 605
Comeau v. Guild Farm Oil Co 191
Commerce Bk. v. Dalrymple 155
Commerce Bk. v. N. Y 690, 708
Commercial Bk. v. French 483
Commercial Bk. v. Kortright 100, 201, 278
Commercial Bk. v. Lockwood 651, 654
Commercial Bk. v. Newport Man. Co 386, 395
Commercial Bk. v. Norton 290, 371
Commercial Bk. v. State 42, 44, 657
Commercial Bk. v. Union Bk 451
Commercial Ins. Co. v. Ives 289
Comins v. Coe 164
Commissioners v. Bank of Buffalo 232
Comrs. v. Baroux 678
Comrs. v. Bright 505
Comrs. v. Cox 287, 355
Comrs. v Erie, etc., R. Co 339
Comrs. v. Gas Co 414
Comrs. v. Holyoke Water P. Co 62, 64, 651
Comrs. v. Keller 355
Comrs. v. Philadelphia 675
Comrs. v. Supervisors 678
Comrs. v. Troy, etc., R. Co 388
Comrs. of Cent. Park, Matter of 574
Commonwealth v. Allegheny Bridge Co 612, 618, 625, 654, 658
Comm. v. Arrison 612, 625
Comm. v. Athern 615
Comm. v. Atlantic, etc., Co 554
Comm. v. Bk. of Brest 35, 217
Comm. v. Blue Hill Turnpike 40
Comm. v. Breed 573, 577
Comm. v. Burrell 619
Comm. v. Cambridge 601
Comm. v. Carey Improvement Co 690
Comm. v. Cluley 618, 655
Comm. v. Commercial Bk ... 612, 620, 650
Comm. v. Crane 258
Comm. v. Cullen 42, 44, 656, 666
Comm. v. Dennison 673
Comm. v. Eastern R. Co 651
Comm. v. Erie, etc., R Co 64
Comm. v. Essex Co 63, 651
Comm. v. Farmers' Bk 618, 625
Comm. v. Fayette R. Co 64, 696
Comm. v. Fisher 668
Comm. v. Fitchburg R. Co 653
Comm. v. Fowler 616
Comm. v. Guardians of the Poor 85
Comm. v. German Soc 86, 89
Comm. v. Gill 414, 423
Comm. v. Graham 612, 625
Comm. v. Green 12
Comm. v. Hamilton Man. Co 690, 697
Comm. v. Hancock Bridge 779
Comm. v. Ipswich 318
Comm. v. Jarrett 30
Comm. v Liquors 46
Comm. v. Lowell Gas Co 690, 697
Comm. v. McBride 614
Comm. v. Mayor, etc 419
Comm. v. Med. Soc. Erie 89
Comm. v. Murray 613
Comm. v. Nashua & Low. R. Co 796
Comm. v. New Bedford 649, 796
Comm. v. Penn. Beneficial Inst 85, 89
Comm. v. Perkins 713
Comm. v. Phila., etc , R. Co 625
Comm. v. Philanthropic Soc 89
Comm. v. Pike Beneficial Soc 85, 89
Comm. v. Pittsburgh 45, 80, 355, 560
Comm. v. Pittsburgh, etc., R. Co 63, 650

PAGE

Comm. v. Power 772
Comm. v. Quicksilver Min. Co.... 493, 500
Comm. v. Reed 779
Comm v. Reigart. 655
Comm. v. Robertson 414
Comm. v. Roman Cath. Soc..... 221
Comm. v. Rosseter 677
Comm v. Roxbury 668
Comm. v. St. Mary's 510
Comm. v. St. Patrick's Benev. Soc ... 85
Comm. v. Smith ... 215, 387, 615, 635, 655
Comm. v. Sparks 615
Comm. v. Stodder 417
Comm. v. Tenth Mass. Turnp..... .. 612
Comm. v. Tewksbury..... 598
Comm. v. Turner 414
Comm. v. Union Ins. Co.....650, 653
Comm v. Westborough 601
Comm. v. Westchester R. Co... 10, 28, 120
Comm. v. Worcester 414
Comm. Ins. Co. v. Crane 303
Comparet v. Burr 93
Compton v. Sus. R. Co..... 594
Comstock, In re.... .....348, 390
Conant v. Seneca Co. Bk..... 91
Conant v. Van Schaick 112
Concord Bank v. Gregg 446
Concord R. Co. v. Greeley..561, 570, 577, 606
Congregation v. Johnston 311
Congregational Soc. v. Perry..... 505
Conklin v. Sec. Nat. Bank 416
Connecticut v. Penn..... ....293, 446
Conn. Mut. L. Ins. Co. v. Cleveland, etc., R. Co. 351, 353
Conn., etc., R Co. v. Bailey..134, 136, 421 443, 654
Conn., etc., R. Co. v. Baxter 133
Conn., etc., R. Co. v. Holton 582, 589
Conn. Ins. Co. v. Cleveland 282
Connell v. Woodward.... 484
Conner v. Southern Ex. Co..... ... 113
Conover v. Ins. Co.. 274
Conro v. Port Henry Iron Co..221, 233, 248 285, 297, 418, 510
Conservators of River Tone v. Ash ... 27
Contoocook Valley R. Co. v. Barker.119, 151
Conway, Ex parte 388, 673
Conybeare v. New Brunswick 447
Cook v. Tullis..... .....239, 292
Cooke v. State Bank 274, 277
Cooley v. Granville 69
Coombe v. Scott 294
Cooper v. Curtis 652
Cooper v. Frederick ... .414, 520
Cooper v. Gooderich 269
Cooper v. Rankin..... 337
Cooper v. Williams..... 561
Copeland v. Merchants' Ins. Co..... 446
Copes v. Charlestown..... 713
Copley v. Grover & Baker S. Mach. Co. 452
Copper Mines v. Fox..... 395
Corbett v. Woodward. 213, 214
Corey v. Long 543
Corfield v. Coryell... 489
Cork & Yougra Ry. Co. v. Paterson... 557
Corn Ex. Bank v. Cumberland Coal Co 323
Cornell v. Guilford 355
Cornell v. Hay 241
Cormack v. Richards 92, 193
Corning v. McCullough 112, 114
Corning v. Southland..... 233
Cornman v. Eastern Co. R. Co .. 751, 753
Cornwall v. Easthman..... 113
Cornwall G. C. M. Co. v. Bennett... 152
Corrigan v. Trenton, etc., Co.....400, 404
Corrigan v. Union Sugar Refinery Co.. 732
Corry v. Londonderry, etc., R. Co.... 178
Corse v. Sanford 113

PAGE.

Corser v. Paul 293
Cosgrove v. Ogden.....725, 730, 732, 795
Coster v. Tide Water Co. 561
Cotheal v. Brower 178
Cothier v. Midland R. Co..... 590
Cottrill v. Myrick 570
Coulter v. Robertson 668, 670
Coulter v. Trustees, etc..... 26
County Comrs. v. Cox..... 668
County Life Assurance Co., In re... 256
County Palatine Loan, etc., Co., In re. 171
Courcier v. Ritter 295
Courtright v. Deeds 182
Couteulx v. Buffalo 339
Covey v. Pittsburg, etc., R. Co..... 638
Covington v. Covington Bridge Co.44, 287
Covington, etc., Co. v. Kenton Co... 711
Covington Draw Bridge Co. v. Shepherd 26, 495, 529, 534, 536
Cowell v. Colorado Springs Co... ... 27
Cowles v. Cromwell..... 171
Cowles v. Mercer County 494
Cox v. Bodfish..... 12
Cox v. Midland R. Co.. 279
Cox v. Vanderkleed 469
Craig v. Ward... 446
Craig v. Vicksburg. 352
Craker v. Chicago & N. W. R. Co. ... 762
Cram v. Bangor House... .... 266, 326
Crane, Ex parte 674, 677, 683
Crawford v. Pittsburg, etc., R. Co... 133
Crawfordsville R. Co. v. Wright 458
Crease v. Babcock 63, 523, 650, 664
Crenshaw v. State Riv. Co.... 573
Crocker v. New London, etc., R Co. 457
Crocket v. Young 273
Croft v. Alison 719
Crook v. Jewett..... ... 242
Crosby v. Hanover.....552, 563, 566
Cross v. Guthrey 479
Cross v. Phenix Bank.... 430
Cross v. Sackett 242, 449
Crossman v. Bristol, etc., R. Co..... 590
Crossman v. Penrose F. B. Co..... 135
Crossman v. Hilltown, etc., Co. ..392, 410
Crump v. U. S. Mining Co...31, 133, 135, 446 451, 654, 671
Cruse v. Paine..... 156
Crystal Lake Ice Co. v. Backus.... 612
Culbertson v. Wabash Nav. Co.107, 359, 484
Cumberland Coal Co. v. Parish.... 213, 216
Cumberland Coal Co. v. Sherman..248, 295 523
Cumberland College v. Ish 557
Cumberland, etc., R. Co. v. Portland.. 694
Cummings v. Maxwell 46, 113
Cummings v. Webster 417
Cunningham v. Ala. L., etc., Ins. Co.. 104 430
Cunningham v. Edgerfield, etc., R. Co.... 130
Cunningham v. Soules..... 300
Cunningham v. Vermont... 158
Curdy v. Rodgers 300
Curien v. Santini 660
Curling v. Chalklen..... .....279, 281
Curran v. State....79, 179, 206, 209, 244, 246 515, 651, 663, 668
Currie v. White..... 154
Currier v. Lebanon Slate Co..... 171
Curry v. Farmers' Bank 155
Curry v. Mt. Sterling.... 569
Curry v. R. R. Co... 31
Curry v. Scott..... ... .65, 182, 209
Curry v. Woodward..... 154
Curtis v. Detroit, etc., R. Co..... 761
Curtis v. Leavitt ..... .339, 343, 380, 387, 542
Curtis v. McCullough 486, 680
Curtiss v. Murry 113, 483

PAGE.

Curtiss v. Rochester, etc., R. Co..... 468
Cushman v. Loker..... 295
Cushman v. Smith..... 592
Cushman v. Thayer Mfg Co.... ...100, 194
Custer v. Titusville Gas, etc , Co..... 444
Cutler v. Middlesex Factory Co... 131, 248
Cuyler v. Rochester..... .....287, 355

Dabney v. Stevens..... ...227, 289, 431
Dacosta v. Russia Co 679
Daland v. Williams 156, 161
Daley v. Norwich, etc., R. Co..... 792
Dally v. Wonham 139
Dalrymple v. Whitingham 355
Damon v. Granby 284, 318, 407
Damont v. N. O., etc., R. Co..... 756
Dana v. Bank of U. S.....388, 418, 510
Dana v. Brown..... 103
Danbury, etc., R. Co. v. Wilson....143, 180
Dane v. Young 414
Danely v. Brown.... 108
Danforth v. Schoharie Turnp. Co..394, 396
Daniels v. Flower Brook Co..... 315
Darcy v. Tamar, etc., R. Co. 266, 323
Darlington v. Mayor, etc..... .. 41
Darnell v. Dickens. 406, 410
Dart v. Farmers' Bank..... 486
Dart v. Houston 619
Dart v. Hunston..... 483
Dartmouth College v. Woodward....3, 10
16, 29, 38, 43, 60, 66, 75, 338, 356, 649, 652, 705
Dater v. Troy & T. R. Co..... 433
Davenport v. Dower 513
Davenport v. Hallowell 272
Davenport v. Peoria, etc., Ins. Co..402, 407
David v. South W. R. Co.... 480
Davidson v. Bridgeport..... .....233, 274
Davidson v. Cooper..... 404
Davidson v. Rankin..... .....110, 113
Davis v. Bank of England..... 82, 105, 424
Davis v. Bilsland.... 645
Davis v. Chic., etc., R. Co. 760
Davis v. London, etc., R. Co..... 752
Davis v. Maynard 531
Davis v. Mayor.. 779
Davis v. Mobile Bank.... 285
Davis v. N. Y. C. R. Co..... 790
Davis v. North River Ins. Co..... 338
Davis v. Prop. of Meeting House...343, 414
Davis v. Tuscumbia, etc., R. Co.... ... 571
Dawning v. Mt. Washington Co... .. 357
Dawson v. Manchester, etc., R. Co.... 750
Day v. Essex County Bk 623
Day v. Newark India Rubber Co..... 26
Day v. Owen..... 771
Day v. Stetson..... 31, 598, 652
Dayton v. Borst..... 130, 147
Dayton v. Pease 450
Dayton, etc., R. Co. v. Hatch..... 123, 129
221, 224, 418
Dean v La Motte 25
Dean v. Roesler 296
Dean v Hall. 92
Dearborn v. Boston, etc., R. Co..... 605
Deaton v. Polk Co 605
Debolt v. Ins. & Trust Co 427
De Camp v. Alward..... 614, 627
Decker, Ex parte.... 675
Decker v. Freeman 407
De Cordovan v. Galveston..... 354
Dedham Bk. v. Chickering..... 31, 280
Dedham Sav. Inst. v. Slack 238
De Forrest v. Wright 733
De Grave v. Mayor, etc..... 404
De Graff v. American Linen Thread
Co 279, 358, 376
Delacey v. Neuse Riv. Nav. Co 82, 89
Delamatyr v. Mil , etc., R. Co..... 754
Delaware, etc., R. Co. v. Irick ... 143, 483

PAGE.

Delaware, etc., R. Co. v. Thorp ... 62, 651
Delaware Tax Cases. 339
Delaware, etc., Canal Co. v. Commrs.. 458
Delaware, etc., Canal Co v. Commonwealth 458
Delaware, etc. Canal Co. v. Sansom .. 147
Delamatyr v. R. Co..... 757
Den v. Vreelandt 406, 410
Den v. Wright 446
Denmead v. Balt. Bk 637
Dennis v. Kennedy 12
Denny v. Hamilton 532
Denny v. Manhattan Co 303
Densmore Oil Co. v. Densmore..... 139
Denton v. Gt. North. R. Co. 438, 776
Denton v. Jackson 27
Denton v. Livingston..... . 184, 189, 532
Denton v. Macneil 448
De Pauw v. N. Albany 691
Deposit, etc., Ass. Co. v. Ayscough . 133
441, 447
Derby Canal Co. v. Wilmot... 407
De Ruyter v. St. Peter's Church.... ... 388
Despard v. Walbridge 446
Detroit v. Jackson 233, 239, 270, 410
Detroit Post Co. v. McArthur..... 478
Detroit, etc., R. Co. v. Curtis..... ... 761
Detroit, etc., R. Co. v. Van Steinburgh, 788
790
De Varaigne v. Fox. 561, 668
De Vass v. Richmond 351
Devendorf v. Beardsley 543
Devendorf v. Dickinson..... 543
Devoy v. N. Y 260
Dew v. Judges 676, 681
De Witt v. Brisbane..... 390
De Witt v. Walton 286, 298
De Wolf v. Mallett..... 113
Dexter Plank R. Co. v. Millerd 128
Dey v. Jersey City 323, 338
Deyo v. N. Y. C R. Co..... 750
Dickey v. Tennison... 561
Dickinson v. Cent. Nat. Bank..... 92
Dickinson v. Chamber of Commerce.. 83
416
Dickinson v. Conway 294
Diggle v. London, etc., R. Co..... 395
Dill v. Wareham 355
Diligent F. Ins Co. v. Com 89
Dillingham v. Snow.....13, 20
Dillon v. Wareham 355
Dingley v. Boston..... 571, 668
Dingman v. People 46
Dispatch Line, etc., v. Bellamy Man.
Co.. .. ...217, 239, 283, 285, 323, 326, 410
Dobbins v. Walton 198
Dobson v. Pearce 446
Dobson v. Racey 249
Dodge v. Lambert 293
Dodge v. McDonnell..... 294
Dodge v. R. Co..... 788
Dodge v. Woolsey. ...202, 511, 513, 515, 699
Dodwell v. University of Oxford.. ... 419
Doe v. Martin 435
Donaldson v. Miss. & Mo. R. Co..... 480
Donell v Sanford 469
Donovan v. N. Y..... 286
Donnaher v. State 562
Donnelly v. People..... 614
Donworth v. Coolbaugh..... 113
Dooley v. Cheshire Glass Co 35, 505
Dorlan v. East Brandywine, etc., R. Co. 605
Dorr v. Munsell 446
Dorris v. French 131, 138
Dorsey, etc , R. R. Co. v. Marsh 68
Dobbleday v. Muskett... 299
Doughaday v. Crowell..... 336
Dougherty v. Hampston..... 527
Dougherty v. Hunter 278

PAGE.

Doughty v. Hopo 574
Douglas v. Virginia City 335, 343
Dovaston v. Payne 588
Dow v. Clark 427
Downie v. White 121, 133
Downing v. Mt. Washington R. Co. 66, 295, 338, 356
Downing v. Potts 81, 98
Downings v. Ruger 317
Doyle v. Continental Ins. Co 348
Doyle v. Muntz 521
Doyle v. Peerless, etc., Co 653
Drake v. Hudson R. R., etc 608
Draper v. Mass. S. Heating Co 296, 308
Drawbridge Co. v. Shepherd 488
Drinkwater v. Portland Marine R 113
Driscoll v. West Bradley Man. Co. 416, 421
Drew v. Sixth Ave. R. Co 795
Drury v. Cross 248
Dubois v. Augusta 413
Dubois v. Canal Co 284
Dubois v. Hermance 446
Dubois v. Wilson 645
Dubree v. Reliance Engine Co 86
Ducat v. Chicago 27, 347, 489, 500
Duckworth v. Johnson 479
Dudley v. Jamaica Aqueduct Pond Co. 690
Dudley v. Kentucky High S 311
Dudley v. Price 520
Duffy v. Chicago, etc., R. Co 786, 790
Duggins v. Watson 720, 762, 795
Duke v. Cahawba Nav. Co. . 91, 96, 164, 188, 507, 654, 671
Dumpor v. Syms 269
Duncan v. Jaudon 175
Duncan v. Lintley 106
Duncan v. Niles 300
Duncan v. Surry Canal Co. 458, 716
Duncuft v. Albrecht 185
Dung v. Parker 299, 301
Dunham v. Cin., etc., R. Co 388, 631
Dunham v. Isett 631
Dunham v. Rochester 414, 417
Dunham v. Trustees, etc 416
Dunham v. Williams 561
Dunkerson, Re 415
Dunn v. Commercial Bank 187, 190
Dunn v. St. Andrew's Church. 394, 403, 410
Dunnell Man. Co. v. Pawtuck 690
Dunning v. North-western Turnpike Road 355
Dunster v. Lord Glengall 92
Dunston v. Imperial Gas Co 265, 412
Dupee v. Boston Water Power Co 68
Durant v. Iowa Co 351
Duranty's case 439, 449
Durfee v. Old Col. & F. R. Co 63, 517
Durkee v. Stringham 184
Dusenbury v. Ellis 300
Duston v. Imp'l Gas Co 258
Dutch West India Co. v. Moses 24
Dutchess Cotton Mill Manuf. Co. v. Davis 126, 146, 147, 501
Dutton v. Marsh 296, 298
Duvall v. Myers 526
Dyer v. Hunt 306
Dyer v. Walker 654, 671
Dygert v. Schenck 737
Dynes v. Shaffer 133, 136

Eadman v. Bowman 206
Eagan v. Fitchburg R. Co 789, 791
Eakright v. Logansport, etc., R. Co 152
Eames v. Wheeler 188
Earnest v. Nicholls 290
Earp's Appeal 157
East v. Third Ave. R. Co 740
East Anglian, etc., R. Co. v. Eastern, etc., R. Co 225, 360, 384

PAGE.

East Anglian R. Co. v. Lythgoe 303
East Boston Ferry Co. v. Boston 675
Eastern Archipelago Co. v. Regina ... 652, 657
Eastern Co. R. Co. v. Brown 796
Eastern Co. R. Co. v. Hawkes 362
Eastern P. R. Co. v. Vaughan. 90, 117, 148, 180
Eastern Union Ry. Co. v. Cochrane ... 557
East Hartford v. Hartford Bridge Co. 41, 427
East London Water W. Co. v. Bailey .. 269, 380
Eastman v. Cooper 174
Eastman v. Coos Bank 403
East Penn. R. Co. v. Hottenstine 605
Eastern Union Ry. Co. v. Cochrane ... 311, 318
Eaton v. Boston C. & M. R. Co 569
Eaton v. Erie R. Co 788
Eaton v. European & Northern R. Co . 737
Eaton & Hamilton R. Co. v. Hunt ... 558
Ebaugh v. Hendel 82
Eclectic Life Ins. Co. v. Fahrenkring .. 289
Edgerly v. Emerson 323, 326
Edgerton v. N. Y. & H. R. Co 761
Edinburgh, etc., R. Co. v. Campbell .. 590
Edmunds v. Bushnell 299
Edmundson, In re 684
Edwards v. Grand Junction Canal Co. 269
Edwards v. Grand Junction R. Co ... 305
Edwards v. Hall 184
Edwards v. Jager 44
Edwards v. Kilkenny, etc., R. Co ... 233
Edwards v. London & N. Western Ry. Co 451
Edwards v. London & S. West. R. Co .. 727
Edwards v. Midland Ry. Co 453
Edwards v. Stonington Cem. Ass 571
Edwards v. Union Bank ... 433, 458, 559, 717
Edwardsville Bank v. Simpson 487
Ehle v. Chittenango Bank 157
Eland v. Eland 173
Eld v. Gorham 507
Eldridge v. Long I. R. Co 762
Eldridge v. Smith 578, 635
Ellicott v. Warford 543
Elliott v. Merryman 175
Ellis v. Coleman 302
Ellis v. Essex Merrimack Bd. Co 181
Ellis v. Marshall 29
Ellis v. Pulsifer 297
Ellis v. Sheffield Gas Co 716
Ellis v. Turner 435
Ellison v. Ellison 522
Ellsworth v. Cole 197
Elwell v. Dodge 275, 285, 297
Elwes v. Ogle 303
Ely v. Fire Ins. Co 487
Elysville Man. Co. v. Okisko Co ... 147, 395, 410
Emblem v. Myers 474
Embury v. Connor 569, 579
Emerson v. Prov. Manuf. Co 285, 336
Emery v. Mariaville 355
Emmet v. Reed 239
Empire Assurance Co., In re 545, 548
Enfield Toll Br. Co. v. Conn., etc., R. Co 58, 215, 357, 552, 649, 654, 659
English v. Chicot Co 713
English v. New Haven, etc., R. Co ... 65
Eng. Joint Stock Bk Co., Ex parte ... 439
Enos v. Hamilton 730
Ensey v. Cleveland, etc., R. Co 504
Episcopal Soc. v. Episcopal Church ... 25, 233, 295
Eppes v. Miss., etc., R. Co 32, 152
Era Ins. Soc., In re 548
Erick v. Johnson 295
Erie v. Canal Co 41
Erie, etc., R. Co. v. Brown 120
Erie, etc., R. Co. v. Casey 45, 649, 654

PAGE.

Erie, etc., R. Co. v. Owen 132
Erneley v. Walroud..... 269
Ernest v. Nicholls..... 209, 230, 513
Ernst v, Bartle 10
Ernst v. H. R. Co 788
Essex Bridge Co. v. Tuttle..... 115, 147
Essex T. Corp. v. Collins..... 239, 279
Estep v. Keokuk Co... ..... 287, 355
Eureka Co. v Bailey Co 411
European C. R. Co., Re 241
European & N. A. R Co. v. Poor..... 213
248, 252
Evans v. Bicknell..... 278
Evans v. Haefner 583
Evans v. Osgood..... 313
Evans v. Philadelphia Club. 82, 85, 87, 89
Evans v. Trimountain Trust F. Ins. Co. 544
Evans v. Wells 248
Evansville Nat. Bk. v. Metropolitan
Nat. Bk.... 416
Evansville, etc., R. Co. v. Baum. 457, 473
Evansville, etc., R. Co. v. Duncan.... 760
Evansville, etc., R. Co. v. Evansville. 505
Evansville, etc., R. Co. v. Sheaver ... 124
Evarts v. Killingworth Man. Co... 656, 666
Everett v. Grapes 412
Everett v. Saltus..... 642
Everett v. U. S 239, 273
Everhardt v. West Chester, etc., R.
Co 118, 144, 172
Eversfield v. Mid-Sussex, etc., R. Co.. 590
Everston v. Nat. Bk. Newport..... .. 355
Ewbank v Nutting..... 724
Ewing v. Medlock.. 12
Exchange Bk. v. Monteath 279
Exeter Bk. v. Rogers 232, 281
Eyre v. McDonald 92

Fair v. Lond. & N. W. R. Co..... 469
Fairchilds v. Cal. Stage Co 469
Fairfield Turnpike Co. v. Thorp ... 30, 425
Fairmount, etc., R. Co. v. Statler..... 760
Falconer v. Campbell..... 13, 28
Fanning v. Gregoire... ..... 282, 337
Farmers', etc., Bk. v. Butchers', etc.,
Bk..... . ..... 276, 287, 444
Farmers', etc., Bk. v. Chester 233
Farmers', etc., Bk. v. Downe 214
Farmers', etc., Bk. v. Empire Stone
D. Co 387
Farmers', etc., Bk. v. Gettinger..... 560
Farmers', etc., Bk v. Haight..... 286, 404
Farmers', etc., Bk. v. Harrison 68
Farmers', etc., Bk. v. Iglehart.... 164, 198
429
Farmers', etc., Bk. v. Jenks 35
Farmers', etc., Bk. v. Sherman 293
Farmers', etc., Bk. v. Troy Bk 285
Farmers', etc., Bk. v. Wasson... 102, 103
Farmers', etc., Ins. Co. v. Cheshunt.. 289
Farmers', etc., Ins. Co. v. Harrah..... 347
Farmers' Loan Co. v. Carroll 66
Farmers' Loan Co. v. Clowes... 358
Farmers' Loan & T. Co. v. Commercial
Bk..... ... . 388, 632
Farmers' Loan & T. Co. v. Hendrick-
son.... ..... 387, 638
Farmers' Loan & T. Co. v. St. Joseph,
etc., R. Co 639
Farmers' Turnp. Co. v. McCullough ... 410
Farrar v. Perley 316
Farrar v. Stackpole 640
Farrington v. Teun 43
Farrow v. Bivings.. 115
Faulds v. Yates 98, 106
Fay v. Lexington, etc., R. Co 130
Fay v. Noble 226, 343, 386, 416
Fay v. Parker 470, 476
Fazakerly v. Wiltshire..... 417

PAGE.

Feeter v. Heath. 300
Fent v. Toledo, P. & W. R. Co... 462
Fenn v. Harrison 272, 293
Fero v. Buffalo, etc., R Co..... 782
Ferrett v. Taylor 652
Fester v. La Rue 375
Field v. Cooks 32
Field v. Crawford..... 427
Field v. Field 316
Field v. Montmollin 161, 183
Field v. Pierce..... .. 181
Field v. Schleffelin..... .. 175
Filer v. N. Y. C. R. Co. 469, 755
Filson's Trustee v. Himes..... 308
Finch v. Same..... 509
Finlason v. Chicago, etc., R. Co.... ... 791
Fire Dept. v. Helfenstein 691
Fire Dept. v. Kipp 29
Fireman's Ins. Co., Ex parte..... 100
Fireman's Ins. Co. v. Ely..... 390
Fireman's Ins. Co. v. Sturges 358
First Bapt. Ch. v. Schenec., etc., R. Co. 608
717
First Baptist Ch., etc., v. Utica R. R.,
etc. 454, 608
First Mort. Bondholders v. Maysville
& T. R. Co. 634
First Nat. Bank Carlisle v. Graham... 452
457
First Nat. Bank v. Lanier.....175, 195, 201
First Parish v. Sterns.... 318
Fish v. Chic., etc., R. Co.... 516
Fish v. Potter 388
Fisher v. Essex Bank .. 96, 189, 197, 201, 429
Fisher v. Evansville. etc., R. Co... 215, 548
551
Fisher v. Horicon Co..... 573
Fisher v. Price 197
Fisher v. Harrisburg 414
Fisher v. Willard 446
Fisher v. N. Y. C. R. Co. 554
Fishkill v. Joliet Opera House 171
Fisk v. Chic., etc., R. R. Co.... ....485, 525
Fisk v. Kenosha..... 713
Fiske v. Eldridge 285
Fishmongers' Co. v. Robinson 395
Fister v. La Rue 279
Fitch v. McDiarmid 673
Fitch v. Pacific R. Co..... ....783, 784
Fitchburg, etc., R. Co. v. Grand Junc-
tion, etc., R. Co... .... 62, 651
Fitchburg R. Co. v. Prescott 691
Fitzherbert v. Mather..... 278
Fitzsimmons v. Joslin 295
Flanagan v. Great W. R. Co 341
Fleckner v. W. S. Bank ...216, 232, 239, 273
277, 287, 337, 371, 394, 396, 403, 410, 418
Fleming, Ex parte 678
Fleming v. Chic., etc., R. Co..... .. 605
Fletcher v. Dysart..... 294
Fletcher v. Peck 649
Flint v. Clinton Co.....388, 411
Flint v. Pierce..... 415, 427
Flint v. Trans. Co..... 762, 764
Flint v. Woodhull 42
Flint, etc., R. Co. v. Dervey.... 251, 254, 511
Flint, etc., R. Co. v. Woodhull 651
Florida v. Gibbs 677
Flower v. London, etc., R. Co..... 590
Flynn v. San Francisco, etc., R. Co. 783, 784
Fogg v. Griffin 443
Folger v. Mitchell 293
Foote's Case 156
Foote v. Cincinnati..... 716
Force v. Dahlonega Tanning, etc., Co. 113
Ford v. Williams 284
Forsyth v. Boston, etc., R. Co..... 758
Forsyth v. Hooper..... 736
Forrestier v. Bordman..... .....272, 293

PAGE.

Fort Edward, etc., Co. v. Payne....127, 130
Fort Wayne v. Jackson 26
Fort Wayne Turup. Co. v. Deane 504
Fosdick v. Sturges 35, 183
Foss v. Harbottle 139
Foster v. Bates 307
Foster v. Cackerell 92
Foster v. Essex Bank....273, 275, 434
Foster v. Shaw.. ....406, 410
Fountaine v. Carmarthen R. Co.... 230
Four Mile Valley R. Co. v. Bailey.... 123
Fowle v. Common Council, etc. 434
Fowler, In re 569
Fowler v. Bledsoe 271
Fowler v. Ludwig 113
Fowler v. Robinson 113
Fowler v. Scully 390
Fox v. Allensville Co.... 119
Fox v. Northern Liberties 239
Foy v. London, etc., R. Co.... 752
Frankfort Bank v Johnson 434
Frankford, etc., Turn. Co. v. Phila., etc., R. Co 782
Franklin v. Ezell.... 294
Franklin v. S. E. Ry. Co.... 479
Franklin Bank v. Cooper 664
Franklin Bridge Co. v. Wood 13
Franklin Co. v. Lewiston Institute for Saving.. 368
Franklin Glass Co. v. Alexander 142
Franklin Ins. Co. v. Jenkins... 303
Franklin Ins. Co. v. Murray 289
Franklin Tel. Co., In re 612, 627
Fraser v. Charleston.... .... 91, 194
Fraylor v. Sonora Mining Co 303
Frazier v. N. O. Gas, etc.... 346
Frazier v. Wilcox 487
Frederick Female Sem. v. State.... 657
Freehold Gen. Ins. Co. v. Metrop. R. Co.. 781
Freeholders v. Barber.... 417
Freeman v. Harwood 93
Freeman v. Machias Water Power Co. 328, 346
Freeman v. Winchester 146
Free School v. Flint....413, 421, 423
Fremont v. Stone ... .248, 546
Erench v. Braintree.... 572
French v. Gifford 514
French v. Teschemaker.... ... . 109, 113
Friedlander v. Slaughter House Co.... 193
Frink v. Coe.... 474
Frink v. Potter 750, 762
Frink v. Schroyer.... 469
Frisby v. Ballance.... .. 527
Frost v. Frostburg Coal Co 34
Frost v. Grand Trunk R. Co 758
Frowd case 448
Frye v. Bk. Ill.... 504
Frye v. Tucker.... 383
Fullam v. Cummings.... 93
Fuller v. Bowe.... .... 107, 108
Fuller v. Dame 248, 251
Fuller v. Hooper 297
Fuller v. Plainfield Academic School.. 356
Fuller v. Rowe 256
Fulton Bk. v. N. Y. Canal Co.... 345

Gage v. New Market R. Co.... 359, 424
Galena v. Comm 335
Galena, etc., R. Co. v. Dill. 786
Galena, etc., R. Co. v. Loomis.. 46
Gallatin v. Bradford 416
Galliopolis Bk. v. Trimble 654, 671
Galloway v. Mayor.... 591
Galveston R. Co. v. Cowdry.. 330, 349, 388, 522, 631, 639
Galway v. U. S. Steam Sugar Ref. Co.. 542
Gandy v. Chicago, etc., R. Co..... 782, 783

PAGE.

Gansevoort v. Williams. 277
Gardiner v. Pollard.... 204
Gardner v. Hamilton Ins. Co... 553
Gardner v. Hope Ins. Co... 142
Gardner v, Newburgh 565
Gardner v. State 695
Garland v. Reynolds 483
Garling v. Baechtel.... 123
Garnier v. St. Louis.... . .... 260, 303
Garrett v. Dillsburgh, etc. R. Co.... 139
Garretzen v. Duenkel 724, 732
Garrison v. Coombs 410
Garton v. Great Western R. Co 693
Garvey v. Colcock... .... 395, 403
Garris v. Portsmouth, etc., R. Co.... 793
Gas Co. v. San Francisco 374, 425
Gas. & Bk. Co. v. Haynes.... 542
Gasset v. Andover 395
Gassies v. Ballou 500
Gavett v. Manchester, etc., R. Co 756
Gayle v. Cahawba, etc., R. Co.... 115, 147
Gaylord v. Fort Wayne, etc., R. Co.... 625
Gaynor v. Old Colony R. Co.... 751
Geery v. Hopkins.... .. 509
Gelpcke v. Dubuque.... 351, 353, 652, 670
General v. Utica Ins. Co. 618
General Exchange Bk., In re.... 197
Genesee Bk. v. Patchin Bk.... ... 383, 387
Georgia R. Co. v. McCurdy.... 756
Gerbler v. Emery 272
Germantown R. Co. v. Fitler.... 151
German Security Bk. v. Jefferson.. . 197
Getchell v. Allen... 645
Getty v. Devlin.... 251
Geyer v. Western Ins. Co.... 188, 192
Ghent v. Adams.... 286
Gibson v. Colt.... 272
Gibson v. Mason.... 571
Giesey v. Cin., Wilm. & Z. Ry. Co.. 577, 589
Gifford v. N. J. R. Co. .. 46, 203, 311, 318, 514
Gifford v. Thompson.... .... 154, 156, 161
Gilbert's case 143
Gilbert v. Manchester Iron Co., 81, 90, 96, 187
Gilbert Elevator R. R. Co.... 61
Giles v. Hutt.... 146
Gill v. Continental Gas Co.. 92
Gillard v. Lancashire, etc., R. Co.... . 479
Gillenwater v. Madison R. Co.... 451, 592
Gillespie v. Wood.... 678
Gillet v. Moody.... .... 542, 664
Gillett v. Missouri, etc., R. Co.... 458
Gillett v. West. R. Co... 790
Gills v. Bailey 231
Gilman v. Bassett.... 673
Gilmer v. Lime Paint.... ... 569, 571
Gilmore v. Pope.... 270, 408
Gilpin v. Howell 189, 532
Girard v. Philadelphia.... 25, 41, 668
Girard Bk. v. Bank, etc.... 444
Glaize v. S. C. R. R. Co 26
Glasgow v. Drew 436
Glasscock v. Comrs., etc.... 675
Glass Co. v. Alexander.... 147
Glassey v. R. Co 792
Gleanes v. Turnpike Co... .... 117, 305
Gloucester Bk. v. Salem Bk.... ... 447
Glover v. N. W. R. Co.... 323
Glyn v. Baker 352
Godbold v. Mobile Bk.... 104, 241, 243, 245, 308
Goddard's case 392
Goddard v. Grand R. R. Co.. 468, 472, 473, 475, 720, 727, 731, 762, 767, 773
Goddard v. Pratt.... 29
Goddard v. Smithett... ... . 614, 618
Goff v. Gt. North. R. Co.. 451, 456, 719, 724, 732, 795
Gonzales v. N. Y. & H. R. Co. 741, 751, 788
Gooday v. Colchester, etc., R. Co. 233, 305

PAGE.

Goodel v. Baker. ... 317
Goodenow v. Tyler.. 272
Goodin v. Evans ... 30, 33
Goodin v. Whitewater Canal Co ... 248
Goodman v. Kennell.. ... 795
Goodnow v. Comrs... ... 343
Goodrich v. Detroit ... 335
Goodrich v. Reynolds ... 34, 133
Goodson v. Brooke... 272
Goodspeed v. East Haddam Bk... 434, 452, 716
Goodwin v. Hardy... 154, 156
Goodwin v. N. Y., etc., R. Co... ... 203
Goodwin v, Union Screw Co ... 410
Gordon v. Appeal Tax Court ... 698
Gordon v. Baltimore... 697
Gordon v. Bulkley ... 337
Gordon v. Longest 495
Gordon v. Manchester, etc., R. Co. ... 776
Gordon v. Preston .. 217, 237, 296, 387, 407, 631
Gordon v. R. Co. 762
Gorgier v. Mierville... 352
Gorman v. Pacific R. Co... ... 46
Gorton v. Erie R. Co 788
Goshen Turn. Co. v. Hurtin 99, 115, 128, 145
Goshen Turn. Co. v Sears... ... 31
Goshoen v. Supervisors... ... 560
Goslin v. Agricultural Hall Co... 735
Goss v Coblens ... 795
Goswill v. Dankley 291
Goszler v. Georgetown... ...356, 420
Gott v. Adams Express Co... 36
Gould v. Oneonta 279, 375
Gould v. Thompson... ... 500
Gould v. Womack 527
Goulding v. Clark 313
Governor v. Gridley 4
Governor v. McEwen ... 41
Gowen v. Penobscot R. Co ... 46
Gracie v. White.... 336
Grady, Ex parte 358
Graff v. Pittsburgh R. Co 130, 136, 144, 172
Grafton Bk. v. Doe 623
Graham v. Connersville R. Co... ... 606
Graham v. Van Diemen's Land Co... 313
Grammar School v. Burt. 44
Granger v. Bassett... ...156, 159
Grand Gulf Bank v. Archer... .. 654
Grant v. Courter.... ... 713
Grant v. Mechanics' Bk... ...96, 429
Gratz v. Redel.... ...146, 148, 241, 255
Gray v. Bridge... ... 675
Gray v. Coffin ... 114
Gray v. Monongahela Nav. Co... ... 141
Gray v. Murray 291
Gray v. N. Y. & V. S. Co... ... 248
Gray v. Portland Bk.....203, 270, 408, 484
Grays v. Turnpike Co.... . .. 146, 148, 504
Great Falls Man. Co. v. Fernald....572, 574
Great Luxembourg Ry. Co. v. Magnay, 253
Great North England Ry. Co. v. Biddulph 103
Great Northern Ry. Co. v. Kennedy.... 146
Great W. R. Co. v. Fawcett... ... 741
Great W. R. Co. v. Rushout 521
Greeley v. Smith 667
Greely v. Bartlett 272
Green v. African Methodist Soc. ... 85
Green v. Bidde... 649
Green v. Craig.... 474
Green v. Durham.. 312
Green v. Hudson Ry. R. Co... ... 480
Green v. London Genl. Omnibus Co.... 433, 451, 454, 716, 719, 731
Green v. Seymour 29, 373
Greenland v. Chaplin... 462
Greenleaf v. Ludington 163

PAGE.

Green Mt. Turnp. Co. v. Bulla... ... 193
Greenup v. Barbee 113
Greenville, etc., R. Co. v. Partlow.... 606
Greenville, etc., R. Co. v. Smith ... 147
Greenville, etc., R. Co. v. Woodsides .. 118
Greenwich v. Easton, etc., R. R. Co.... 68
Greenwood's case.. 209
Greenwood v. Lake Shore R. Co... ... 187
Gresham Life Assurance Co., In re.... 191
Grew v. Breed 664
Grogan v. San Francisco... ... 41
Grose v. Hilt. 113
Gridley v. Lafayette, etc., R. Co. 257
Griffin v. Kentucky Co... ... 62
Griffin v. St. Louis Vine, etc., Assoc... 89
Griffith v. Com'rs, etc... ... 712
Griffith v. Frederick County Bk... ... 526
Griggs v. Foote... ... 286
Grim v. Wissenberg. 561
Grippen v. N. Y. C. R. Co.. 787
Grisewood case 441
Grissell v. Bristowe 156
Griswold's case.... 449
Griswold v. Haven 444
Griswold v. Peoria Univ ... 180
Grizebood v. Blane... 197
Grymes v. Hone... ... ...97, 162
Guaya Iron Co. v. Dawson... ... 487
Gue v. Canal Co... ... ...528, 531
Guerreiro v. Peile 278
Guest v. Poole 359
Gunton v. Ingle 626
Gutzweller v. People ... 41
Guyer v. Western Ins. Co... ... 197

Haack v. Fearing 795
Habersham v. Canal Co...680, 688
Habner v. New Orleans, etc., R. Co.... 760
Hackford v. N Y. C. R. Co.. 789
Haden v. Middlesex T. Corp ... 239
Haddesfield Can. Co. v. Buckley ... 173
Haddon v. Ayers 296
Hadley v. Freedman's Sav. Bank... 348
Hagan v. Providence R. Co.... ...471, 473
Hagerstown Turnpike v. Cruger... 20, 35
Hague v. Dandeson... ... ... 198, 430
Hague v. Philadelphia.. ... .. 286, 380
Hahicht v. Pemberton... 12
Hahn v. Purdell... 68
Hahnemannian L. Ins. Co. v. Beebe... 503
Haight v. Aqueduct 566
Haight v. Day... ... 331
Haight v. N. Y. C. R. Co 788
Hain v. N. Y. G. Co... 119
Halcomb v. Ill., etc., Canal Co... ... 485
Haldeman v. Penn. R. Co... ... 668
Hale v. Bridge Co... ...213, 244, 246
Hale v. Houghton... ... 335
Hale v. Mut. F. Ins. Co... ... ...375, 433
Halford v. Cameron, etc., R. Co... ... 385
Hall v. Boyd 561
Hall v. Carey... 233
Hall v. Crossman 679
Hall v. Selma., etc., R. R. Co... . 116
Hall v. Sullivan, etc., R. Co ...215, 387, 635
Hall v. Supervisors 678
Hall v. U S. Ins. Co...115, 171, 173
Hall v. Vt. & Mass. R. Co...258, 306
Hallett v. Dowdall 296
Hallowell Bk. v. Hamlin.. ... ... 273, 275
Hallows v. Fernie ... 133, 241
Halstead v. Mayor, etc 355
Ham v. Boody 293
Hamden v. N. H. R. Co. 781
Hamilton v. Annapolis, etc., R. Co 566, 654, 671
Hamilton v. Hobart 553
Hamilton v. Kelth 43, 62
Hamilton v. Lycoming Ins. Co... 395, 403

PAGE.
Hamilton v. Newcastle R. Co 386, 395
Hamilton v. Pittsburg 684
Hamilton v. R. R. Co 337
Hamilton v. St. Louis County Court .. 691
Hamilton v. Third Ave. Co... 457, 474, 724
Hamilton, etc., R. Co. v. Rice 131, 180
Hammatt v Wyman 531
Hammond v. Shepard..... 26
Hamson v. Weare..... 113
Hampton v. Coffin 601
Hampton v. Speckenagle..... 300
Hampshire v. Franklin..... 293, 659
Hamtramck v. Bk. Edwardsville .. 504, 652
Hance v Cayuga, etc., R. Co. 793
Handrahan v. Cheshire, etc 114
Hanford v. M'Nair..... 337
Hanna v. Cincinnati, etc., R. Co. 141, 553
558
Hanna v. International Petroleum Co. 13
34
Hanover R. Co. v. Coyle..... 469, 786, 788
Hanson v. Donkersley 108
Hanson v. R. R. Co 473
Hanson v. Vernon 41, 577, 713
Hardcastle v. Md., etc., R. Co..... 675
Hardeman v. Ford..... 294
Hardenbergh v. Bacon..... 100
Harding v. Goodlett 572
Harding v. Townshend 480
Hardy v. Merriweather .. 133, 383, 386, 505
Hardy v. Waltham..... 698
Harford v. M'Nair... 293
Harger v. McCullough 112
Hargreaves v. Parsons..... 185
Harlem Canal Co. v. Seixas..... 119, 147
Harness v. Chesapeake, etc., R. Co... 566
Harper v. Charlesworth 401
Harrington v. Berkshire..... 601, 603
Harris v. Intendant... 67
Harris v. Thompson. 561, 779
Harris v. Roof's Ex'rs 307
Harrison v. Goodman. 417
Harrison v. Lexington R. Co. 654
Harrison v. Martinsville, etc., R. Co... 505
Harrison v. Muskingum Man. Co..... 504
Harrison v. Timmons 22
Harrison v. Vines..... 183
Hart v. Albany 417
Hart v. West. R. Co..... 462
Hartford Bk. v. Barry 273, 275, 487
Hartford Bk. v. Hart 484
Hartford, etc., R. Co. v. Boorman. ... 144
171, 539
Hartford, etc., R. Co. v. Crosswell..... 143
Hartford, etc., R. Co. v. Kennedy..... 115
147, 539
Hartshorn v. Day..... ... 446
Hartt v. Harvey..... 525
Hartwell v. Armstrong..... 566, 571
Harvard College v. Aldermen 690
Harvey v. Thomas..... 571
Haslett v. Wotherspoon..... 115
Hastings v. Amherst & Belchertown
R. Co..... 612
Hatch v. Barr..... 411
Hatch v. Chic., etc., R. Co..... 495, 497
Hatch v. City Bk 686
Hatch v. Vermont Cent. R. Co 607
Hatcher v. Toledo, etc., R. Co ... 215, 528
Hann v. Mulberry, etc., R. Co..... 119, 150
Haven v. Adams..... 411
Haven v. Emery..... 388, 631
Haven v. Grand Junction R. Co... 351, 400
Haven v. New Hampshire Asylum, 308, 410
Havens v. Erie R. Co..... 789
Haverhill Mut. F. Ins. Co. v. Newhall. 285
Hawkins v. Dutchess, etc., Steamboat
Co..... 717
Hawkins v. Malthy.... 156

PAGE.
Hawkins v. Rochester..... 601
Hawthorne v. Calef..... 44
Hay v. Cohoes Co..... 458, 572, 785
Haxtun v. Bishop... 388
Hayden v. Middlesex Turnp. Corp., 403, 484
Hayden v. Noyes.. .... 413, 416
Hayes v. Ottanay, etc., R. Co 215
Haygood v. Justices, etc..... 678
Hayne v. Beauchamp..... 130
Haynes v. Covington..... 66, 371, 483
Haynes v. Municipality. 41
Hays v. Pittsburgh R. Co..... 142, 144, 172
Hays v. Stone..... 234
Hayward v. Davidson..... 374
Hayward v. Pilgrim Soc..... 239, 255, 279
Haywood, etc., Plankroad Co. v. Bryan,
116, 122
Hazard v. Day 446
Hazelhurst v. Savannah, etc., R. Co... 179
279, 375, 377
Hazen v. Boston, etc., R. Co..458, 584, 589
Hazen v. Essex Co.... ....571, 573, 577
Heacock v. Sherman.... 112
Head v. Providence Ins. Co.... 66, 338, 356
384
Heard v. Eldredge..... 161
Heard v. Talbot 103, 189, 197, 201
Heaston v. Cincinnati, etc., R. Co.180, 504
Heath v. Erie R. Co 248, 513
Heath v. Silverthorn Co..... 32
Heathcote v. N. Staffordshire, etc.,
Ry. Co..... 527
Heaton v. Cincinnati, etc., R. Co..... 482
Hebron Church v. Smith 36
Heffernan v. Benkard 737
Hegeman v. Johnson..... 300
Hegeman v. Western R. Co..... 741
Heil v. Glanding 474
Heisembittle v. Charleston 414
Helland v. Lowell 423
Helm v. Swiggett... 100
Hendee v. Pinkerton.215, 387, 392, 400, 404
Henderson v. Australian Royal Mail,
etc., Co..... 395
Henderson v. Hays..... 527
Henderson v. Marzetti..... 395
Henderson v. R. R. Co..... 134, 441, 443
Henderson v. Sacon 241
Hendrickson v. Kingsbury..... .. 471
Henriquez v. Dutch West India Co.341, 485
506
Henry v. Dubuque, etc., R. Co..... 578, 605
Henry v. G. Northern R. Co..... 179
Henry v. Rutland, etc., R. Co..... 259, 303
Henry v. Vanderwood 561
Henry v. V. & A. R. Co..... 541
Henry v. Vt. Cent. R. Co... 782
Henshaw v. Bellows Falls Bk..... 633
Herals v. G. Western R. Co. 179
Herkimer, etc., Co. v. Small 146
Hern v. Nichols. 435
Herod v. Rodman 255
Herron v. Vance..... 664
Hersey v. Veazie. 303, 513, 523
Herzo v. San Francisco 417
Heskith v. Braddock..... 417
Hester v. Hooker..... 526
Hester v. Memphis R. Co..... 134
Hewett v. Swift.. ..... 716, 720, 731, 793
Hewitt v. Price 197
Heyman v. European R. Co....133, 441, 447
Heyward v. Mayor.. ..... 561, 668
Hibbard v. Lambe 522
Hibbard v. R. Co..... 763
Hibernia Turnp. Co. v. Henderson. 98, 115
117
Hichens v. Congreve 523
Hickey v. Boston, etc., R. Co..... 761

PAGE.

Hicks v. Hide 286
Higgins v. N. Y. & H. R. Co 761
Higgins v. Senior 283
Higgins v. Watervliet Turnp. Co .. 720, 727, 730, 795
Higg's case 546
Highland Turnp. Co. v. McKean 13, 98, 115, 148
Hightower v. Thornton 148, 664, 670
Hildreth v. Lowell 571
Hill v. Beach 35
Hill v. Frazier 212
Hill v. Lacrosse, etc., R. Co 530, 637
Hill v. Manchester Water-Works Co ... 338
Hill v. Newichawanick 154, 163
Hill v. N. J. R. Co 203
Hill v. N. O., etc., R. Co 473
Hill v. Pine River Bk 100, 199
Hill v. Rockingham Bk 203
Hill v. Simpson 175
Hill v. Western Vt. R. Co . . 578, 584, 590
Hilles v. Parrish. 154, 247, 329, 331, 350, 524
Hilliard v. Goold 238, 296, 763
Hilliard v. Richardson 732
Hills v. Bannister 283
Hindustan Bk., etc., In re 545
Hoagland v. Bell 114, 181
Hobbitt v. London, etc., Ry. Co 734
Hobbs v. Manhattan Ins. Co 495
Hoblyn v. Rex 312
Hodges v. Buffalo 287, 355
Hodges v. New Eng. Screw Co ... 241, 247, 303, 523, 547
Hodges v. Rutland R. Co 259, 303
Hodgkinson v. Kelly 156
Hodsdon v. Copeland. 650, 652, 659
Hoffman Steam Coal Co. v. Cumberland Coal Co 248
Holbrook v. Basset 387
Holbrook v. Fauquier, etc., Turnp. Co. 181
Holbrook v. N. J. Zinc Co 183, 190
Holcomb v. Ill., etc., Canal Co 487
Holder v. Lafayette R. Co 257, 259
Holladay v. Elliott 119
Holliday v. People 41
Holly Spring Bk. v. Pinson 91, 103
Holmes, Ex parte 99, 320
Holmes v. Gilliland 482
Holmes v. Holmes Man. Co 25
Holmes v. Wakefield. ... 718, 720, 762, 795
Holt v. Blake 113
Holyoke v. Grand Trunk R. Co 468, 474
Holyoke v. Ry. Co 469
Holyoke Bk. v. Burnham 114
Holyoke Bk v. Man. Co 508
Holyoke, etc., Co. v. Lyman ...42, 65, 651
Home of Friendless v. Rouse 698
Home Ins. Co. v. Davis 347
Home Ins. Co. v. Morse 348
Home L. Ins. Co. v Pierce 289
Homersham v. Wolverhampton, etc., Co 404
Honegsberger v. R Co 792
Hood v. N. Y., etc., R. Co 339
Hooker v. Eagle Bk 380
Hooker v. N. H. & Northampton Co ... 597
Hooksett v. Amoskeag Man. Co 785
Hoole v. Great W. R. Co 516
Hooper v. Winston 543
Hope, etc., Ins. Co. v. Beekman ...30, 32
Hope, etc., Ins. Co. v. Koeller 32
Hopkins v. A. & St. R. Co 474
Hopkins v. Exter 82
Hopkins v. Gallatin Turnp. Co 388, 407, 411
Hopkins v. Mayor 423
Hopkins v. Mehaffey 271, 284, 300
Hopkins v. Whitesides 71, 669
Hoppin v. Buffum 96, 98, 100, 319

PAGE.

Horn v. Atlantic, etc., R. Co 793
Horn v. Baltimore Co 302
Horn v. Ivy 267
Horner v. Lawrence 730
Hornstein v. Atlantic, etc., R. Co 605
Horton v. Baptist Church 311, 318
Hotchin v. Kent 238
Hotel Co. v Dickinson 147
Hough v. Cook County Fund Co 371
Houston, etc., R. Co. v. Commrs 685
Houston, etc., R. Co. v. Smith 791
Hovey v. Magill 285
How v. Canal Co 795
Howbeach Coal Co. v. Teague 142
Howard v. Baillie 271
Howard v. Moore 527
Howard v. Savannah 414
Howe v. Duel 219, 243, 245, 535
Howe v. Freeman 388, 631, 633
Howe v. Keeler 407
Howe v. Newmarch 720, 724, 795
Howe v. Starkweather. .. 187, 531, 534, 637
Howe Machine Co. v. Snow 504
Howell v. Chic. & N. W. R. Co ... 156, 159, 524
Hoyle v. Plattsburgh, etc , R. Co. 218, 530, 638, 640
Hoyt v. Bridgewater, etc., Co 239
Hoyt v. Sheldon 420, 657
Hoyt v. Thompson 217, 239, 316, 420
Hubbard v. Chappel 505
Hubbard v. Winsor 317
Hubersty v. Manchester, etc., Ry. Co.. 198
Hudersfield Canal Co. v. Buckley .. 171
Hudson v. Carman 30, 113
Hudson v. Layton 526
Hudson Co. v. State 316
Hudspeth v. Wilson 93
Hughes v. Antietam Manuf. Co 171, 443
Hughes v. Bank of Somerset 504
Hull & London L. Assur. Co., Ex parte, 439
Hullman v. Honcomp 615, 619
Humbard v. Humbard 526
Humble v. Mitchell 185
Humes v. Knoxville 458
Humphrey v. Pegues 704
Humphreys v. Havens 294
Hungerford Nat. Bk. v. Van Nostrand. 36
Hunt v. Bullock 529, 638, 641
Hunt v. Hoyt 469
Hunt v. Kansas, etc., Bridge Co 32
Hunt v. R. Co 732, 736
Hunt v. Wolfe 543
Hunter v. Glasgow, etc., Canal Co 731
Hutchins v. Byrnes 411
Hutchins v. New England, etc . Co... 114
Hutchins v. State Bk 175, 187, 189
Hutton v. R. Co 179, 780
Huvett v. Phila., etc., R. Co 782
Hyatt v. Allen 155
Hyatt v. McMahon 62
Hyatt v. Whipple 649
Hyde v. Franklin 355
Hyde v. Lynde 542
Hynes v. Jungren 730

Ihl v. Forty-second St. R. Co 792
Illidge v. Goodwin 462
Illinois Bk. v. People 698
Ill., etc., R. Co. v. Able 755
Ill., etc., R. Co. v. Adams 792
Ill., etc., R. Co. v. Baches 788
Ill., etc., R. Co. v. Barrou 469
Ill., etc., R. Co. v. Beers 140
Ill., etc., C. Co. v. Chic. & R. I. R. Co. 563
Ill., etc., R. Co. v. Cook 34, 524, 551
Ill., etc., R. Co. v. County 699
Ill., etc., R. Co. v. Hutchinson 792
Ill., etc , R. Co. v. McClelland 782

PAGE.

Ill., etc., R. Co. v. Nunn 783, 784
Ill., etc., R. Co v. Reedy 458
Ill., etc., R. Co. v. Statton 760
Ill., etc., R. Co. v. Weldon 480
Imperial Asso. v Coleman..... 511
Imperial Bk., etc., v. Hindustan Bk.. 546
Imperial Gas L. Co. v. Broadbent.... 780
Imperial Gas Co. v. Clarke. 601
Importing, etc., of Ga. v. Locke..612, 627
Indianapolis, etc., R. Co. v. Farrell... 755
Indianapolis, etc., R. Co. v. Jones ... 556, 558
Indianapolis, etc., R. Co. v. Paramore... 783
Indianapolis, etc., R. Co. v. Petty 793
Indianapolis, etc , R. Co. v. State.680, 688
Inge v. Birmingham, etc., R. Co..... 526
Inglis v. Great N. Ry. Co 146
Ingraham v. Terry 652, 667
Inhabitants v. Weir 355
Inhoff v. Chicago, etc., R. Co 760
Inland Fishery Comm'rs v. Holyoke W. P. Co... 42
Instone v. Bridge Co..... 148
Insurance Co , In re 325
Ins. Co. v. Comm..... 488, 500
Ins. Co. v. C. D., Jr..... 500
Ins. Co. v. Mayor 680
Ins. Co. v. Sanders 316
Ins. Co. v. Tweed..... 462
International L. & A. Soc., In re 521
International L. Ins. Co. v. Commrs. of Taxes 696
Intendent v. Chandler..... 67
Iowa v. Wapello 712
Ireland v. Palestine T. Co 142
Ireland Bk. v. Evans..... 407
Iron Bk. v. Pittsburgh..... 695
Iron City Bk. v. Plattsburg.. 698
Iron Mountain Bk. v. Mercantile Bk... 453
Iron R. R. Co. v. Lawrence Furnace Co. 47
Irrigation Co. of France, Re..... 313
Irvine v. McKeon 113
Irving Bk. v. Wetherald 444
Isaacs v. Third Ave. R. Co 729
Isabell v. St. Joseph, etc., R. Co..... 791
Isham v. Bennington Iron Co. 189, 484, 634
Isham v. Buckingham.. 189
Isreal v. Jewett..... 605

Jackson v. Brown..... 387
Jackson v Campbell..... 407
Jackson v. Chicago, etc , R. Co. 782
Jackson v. Cocker 180
Jackson v. Hampden 312
Jackson v. Ludeling..... 244, 246, 248
Jackson v. Marine Ins. Co., Matter of. 653, 657
Jackson v. Newark, etc., Plank R. Co. 154, 159
Jackson v. Pratt 406, 410
Jackson v. R. & R. Co 588, 793
Jackson v. Sec. Ave. R. Co . 457, 720, 727, 731
Jackson v. Turquand..... 133
Jacob v. Louisville 605
James v. Cincinnati, etc., R. Co 182
James v. Eve 546
James v. Gt. West. R. Co 789
James v. Pontiac P. R. Co..... 531
James v. R. R. Co.... 530
James v. Woodruff..... 669
James Riv., etc., Co. v. Thompson.... 566
Jameson v People..... 13
Jamison v. New Orleans 691
Janson v. Ostrander 4
Jasigi v. Chic., etc., R. R. Co..... 100
Jay Bridge Co. v. Woodman...145, 413, 420
Jefferson, etc., Bk. v. Skelly 698

PAGE.

Jeffersonville, etc., R. Co. v. Bowen.. 792
Jeffersonville, etc., R. Co. v. Hendricks 756
Jeffersonville, etc., R Co. v. Rogers.. 457, 459, 474, 718, 762, 795
Jeffersonville, etc., R. Co. v. Swift ... 756
Jefts v. York.... 300
Jenkins v. California Stage Co..... . 559
Jenkins v. Hutchinson 300
Jenkins v. Morris 285
Jennings v. Broughton..... 134
Jerome v. Ross 564, 592
Jersey, etc., R. Co. v. Jersey..... 696
Jessup v. Bridge 631, 636
Jessup v. Trustees..... 388
Jewett v. Lawrenceburgh, etc., R. Co. 124
John v. Erie R. Co.. ..... 154, 179
John v. Farmers' Bk. 650, 652, 654
Johns v. Johns.. .... 189, 532
Johnson v. Albany, etc., R. Co..... 150
Johnson v. Atlantic R. Co.. 781
Johnson v. Bentley 654, 671
Johnson v. Comm.. 698
Johnson v. Concord R. Co.... 763
Johnson v. County 352
Johnson v. Crawfordsville, etc., R. Co. 133, 136, 443
Johnson v. Cunningham 290
Johnson v. Indianapolis..... .. 26
Johnson v. Lucas..... .... 675, 678
Johnson v. McGruder 336
Johnson v. Norway..... 668
Johnson v. Perry 469
Johnson v. State Marine Hosp..... .. 520
Johnson v Underhill 97
Johnson v. Wabash, etc., R. Co ...117, 131, 180
Johnson v. Westchester, etc., R. Co... 761
Johnston v. Ewing Female Univ.. 117, 131, 180
Johnston v. Jones..... .....211, 293
Johnston v. South West B. Bk.... 118, 450
Joice v. Williams..... 277
Joint Discount Co. v. Brown.....243, 245
Jolly v. Terre Haute D. Co..... 779
Jones v. Cinc., etc., R. Co..... ... 505
Jones v. Dana.....34, 36
Jones v. Glass 795
Jones v. Mayor 366
Jones v. Milton T. Co.... ..... 313, 315
Jones v. Perry..... 479
Jones v. Smith 175
Jones v. Terre Haute, etc., R. Co., 154, 159, 181, 190, 219, 244, 246
Jones v. Walker..... 560
Jones v. Williams..... 175
Jordan v. Woodward 573
Josey v. R. R. Co..... 411
Joslyn v. McAllister 469
Junction, etc., R. Co. v. Reeve 127
Junkins v. School Dist..... 272
Justices, etc., v. Turnp. Co 711

Kaiser v. Kellar.. 543
Kanawha Coal Co. v. Kanawha, etc., Coal Co 34
Kane v. Bloodgood 99, 159
Kansas City Hotel v. Harris ...123, 142, 375
Kansas, etc., R. Co. v. Butts..... . 782
Kansas, etc., R. Co. v. Fitzsimmons.... 791
Kansas Pac. R. Co. v. Miller..... 739
Kansas Pac. R. Co. v. Pointer..... ... 649
Karnes v. Rochester, etc., R. Co.... 156, 158
Katama Land Co. v. Jernegan 120
Kay v. Johnson 296, 526
Kay v. Penn., etc., R. Co.... 792
Kean v. Johnson 143, 223, 513, 516, 524, 548, 660
Kearney v. Andrews 412

PAGE.

Kearney v. Buttes ... 114
Keating v. N. Y. C. R. Co ... 769
Keeler v. Fassett ... 93
Keeler v. Salisbury ... 234
Keeley v. Erie, etc., R. Co ... 750
Keese v. Chicago, etc., R. Co ... 784
Kelley v. Munson ... 449
Kellogg v. Chicago, etc., R. Co ... 462, 469, 782, 785
Kelly v. Mariposa Min. Co ... 547
Kelly v. Troy Ins. Co ... 279
Kelner v. Baxter ... 298
Kelsey v. National Bk ... 237, 295
Kelsey v. Northern L. Oil Co ... 443, 447
Kendall v. U. S ... 673
Kenicott v. Supervisors ... 351
Kennayde v. Pac. R. Co ... 789
Kennebec, etc., R. Co. v. Kendall, 142, 148, 413, 420, 423
Kennebec, etc., R. Co. v. Palmer . 145, 305
Kennebec, etc., R. Co. v. Portland, etc., R. Co ... 215, 387
Kennebec, etc., R. Co. v. Waters .. 134, 443
Kennedy v. Baltimore Ins. Co ... 410
Kennedy v. Colton ... 504
Kennedy v. Gibson ... 664
Kennedy v. Panama, etc., Mail Co., 437, 441
Kenosha v. Lamson ... 351, 353
Kenosha, etc., R. Co. v. Marsh ... 63, 143
Kenton County v. Bk. Lick Townp. 30, 64
Kentucky Bk. v. Schuylkill Bk ... 221, 239, 287, 358, 450
Kerngham v. Williams ... 516
Kerr, In re ... 563
Ketchum v. Buffalo ... 343, 336
Keyes v. Devlin ... 469
Keyes v. Westford ... 69
Keyser v. School Dist ... 307
Keyser v. Stansifer ... 310
Kidderminster v. Hardwick ... 409
Kidwelly Canal Co v. Raby ... 131
Kilpatrick v. Penrose Ferry Co ... 258, 303
Kimball v. Cushman ... 732
Kimball v. Marshall ... 317
Kimmel v. Stoner ... 242
King v. Brooks ... 337
King v. Coopers' Co ... 417
King v. Ginever ... 420
King v. Hertford ... 616
King v. Mayor of Liverpool ... 86
King v. Mayor of N. Y ... 682
King v. Merchants' Ex. Co ... 387
King v. Morford ... 526
King v. Morris ... 782
King v. Ogden ... 625
King v. Patterson, etc., R. Co ... 154, 159
King v. St. Catherine Dock Co ... 541
King v. Stacey ... 626
King v. Theodorick ... 417
King v. Wilson ... 355
Kingman v. Perkins ... 92
Kingsbury v. School Dist ...
Kingston v. Kincaid ... 295
Kinney v. Crocker ... 469
Kinzie v. Chic ... 356
Kip v. Paterson ... 414
Kirby v. Potter ... 184
Kirby v. Shaw ... 690
Kirk v. Bell ... 142
Kirk v. Nowill ... 417
Kirtland v. Snow ... 166
Kishacoquillas T. R. Co. v. McConahy. 652, 654
Kitchen v. Cape Girardeau, etc., R. Co ... 68, 270
Klauber v. Am. Ex. Co ... 771
Klein v. Alton, etc., R. Co ... 145, 147
Kline v. Cent., etc., R. Co ... 457, 723
Knap v. Jewelch ... 269

PAGE.

Knapp v. R. R. Co ... 522
Kneass v. Schuylkill Bk ... 716
Kneeland v. Gilman ... 381
Kneeland v. Milwaukee ... 691
Knight v. Mayor ... 24
Knight v. New O., etc., R. Co ... 793
Knight v. Pontchartrain R. Co ... 700
Knight v. Wells ... 25, 697
Knowles v. Beatty ... 69, 141
Knowlton v. Ackley ... 653, 656, 666
Knowlton v. Congress S. Co ... 143, 241
Koehler v. Black Riv. Falls Co ... 248
Korn v. Mut. Ins. Soc ... 69
Kramer v. C. & P. R. Co ... 500
Krester v. Smith ... 480
Krider v. Western College ... 233
Kuhn v. McAllister ... 183
Kynaston v. Mayor, etc ... 417

Lackawanna, etc., R. Co. v. Doak ... 784
Lackawanna Iron Co. v. Luzerne ... 695
Lafayette Bk. v. Buckingham ... 542
Lafayette Bk. v. State B. of Ill ... 273
La Fayette Ins. Co. v. French ... 485, 488
Lafayette Ins. Co. v. Rogers ... 504
Lafayette, etc., R. Co. v. Adams ... 792
La Grange R. Co. v. Mays ... 127, 134
La Grange, etc., R. Co. v. Rainey ... 651
Lake v. De Lambert ... 522
Lake Ontario R. Co. v. Mason, 117, 152, 152, 180, 205
Lake View v. Rose Hill Cemetery ... 43
Lamb v. Lamb ... 348
Lambertville v. Clevinger ... 605
Lampeth v. North Carolina R. Co ... 769
Lamprell v. Billericay Union ... 404
Land Grant R. R. Co. v. Coffey County, 348
Landreaux v. Bet ... 762, 764
Lane v. Brainerd ... 137, 312, 315
Lane v. Cotton ... 435
Lane v. Schomp ... 366, 523
Lang v. Smith ... 352
Langhaff v. Mil., etc., R. Co ... 790
Langsdale v. Bonton ... 425, 504
Langston v. South Carolina, etc., R. Co., 352
Lanier v. Bk ... 91
Lansing v. County Tr ... 652, 670
Lansing v. Gaine ... 277
Larrabee v. Baldwin ... 109
Lathrop v. Bk of Sciot ... 271
Lathrop v. Com Bk ... 410
Lathrop v. Union Pac. R. Co ... 485, 494
Laugher v. Pointer ... 435
Lauman v. Lebanon, etc., R. Co., 215, 511, 387, 513, 547, 550
Laussatt v. Lippincott ... 272, 200
Laverty v. Burr ... 277
Law v. Conn. R. R. Co ... 293
Lawless v. Anglo-Egyptian Co ... 452, 458
Lawrence case ... 448
Lawrence v. Gt. North. R. Co ... 782
Lawrence v. Housatonic R. Co ... 469
Lazarus v. Shearer ... 283, 300
Lea v. American Canal Co ... 652
Lea v. American, etc., R. Co ... 664
Leavenworth v. Rankin ... 287, 302, 355
Leavitt v. Blatchford ... 344
Leavitt v. Fisher ... 170
Leavitt v. Palmer ... 381
Leavitt v. Yates ... 217, 316
Leazure v. Hillegas ... 410
Le Blanc, Matter of ... 155, 159
Ledbetter v. Walker ... 336
Lee v. M. E. Church ... 296
Lee v. Sandy Hill ... 442, 458
Lee v. Trustees, etc ... 403
Lee v. Wallis ... 421
Leech v. Harris ... 82
Leedom v. Plymouth, etc., R. Co ... 529

PAGE.

Lefler v. Field 446
Leggett v. N. J. Bk. Co 407, 631
Leggett v. N. J Man. Co 410
Legrand v. Hampden Sidney College .. 271, 403, 410
Lehigh Br. Co. v. Lehigh Coal Co. 505, 650
Lehigh Co v. Northampton 695
Lehigh, etc., R. Co. v. Hall 788, 790
Lehman v. Brooklyn 480
Leigh v. Crump 527
Leitch v. Welles 97, 190
Leland v. Hayden 156, 160
Lench v. Lench 449
Lenox v. Roberts 388
Lenton v. McNeil 136
Leonardsville Bk. v. Willard 483
Le Roy v. Globe Ins. Co 159
Leroy v. Platt 638
Le Roy v. Trinity House 616
Lester v. Webb 217, 278
Levering v. Ry. Co 594
Levy v. Horne 378
Lewey's Island R. Co. v. Bolton 152
Lewis v. Bk. of Kentucky 487, 506
Lewis v. Jeffries 369
Lexington v. Butler 353, 383, 387
Lexington, etc., R. v. Applegate 608
Lexington, etc., R. Co. v. Bridges. 241, 303
Lexington, etc., R. Co. v. Chandler, 117, 119, 147, 152
Lexington, etc., R. Co. v. Staples 152
Libbey v. Hodgdon 486
Libby v Rosekranse 543
Lickbarrow v. Mason 444
Life Ins. Co. v. Mechanics' F. Ins. Co .. 434
Life Ins Co. v. Wilson 677
Lighte v. Everett Ins. Co 504
Lightner v. Boston, etc., R. Co 555
Limpus v. London Gen'l Omnibus Co., 451, 457, 716, 719, 726, 731, 738, 795
Lincoln v. Prince 492
Lincoln v. Richardson 29
Lincoln v. Saratoga R. Co 469
Lincoln v. Smith 713
Lindell v. Benton 653, 667
Linder v. Carpenter 252
Lindsey v. Marshall 371
Lindus v. Melrose 296
Linsley v. Bushnell 468
Lionberger v. Rouse 711
Liscombe v. Jersey, etc., R. Co 753
Litchfield Bk. v. Church 133, 136
Litchfield Bk. v. Peck 443
Litchfield Iron Co. v. Bennett 233, 278
Littell v. Scranton Gas, etc., Co 92
Little v. O'Brien 371
Little Miami R. Co. v. Collett 606
Little Miami R. Co. v. Stevens 717
Little Miami R. Co. v. Wetmore. 762, 794
Littleton Manuf. Co. v. Parker. 119, 141, 151
Littlewort v. Davis 371, 391
Liverpool v. Chorley W. Works 575
Liverpool Ins. Co. v. Mass .. 2, 15, 23, 348, 490, 500
Livingston v. Dorgenois 674, 683
Livingston v. Hastie 277
Lloyd v. Hannibal, etc., R. Co. ... 755, 760
Lloyd v. Mayor, etc., of N. Y 41
Lloyd v. Wheatley 526
Loan Asso. v. Stonemetz. 257, 259, 260, 303
Loan Asso. v. Topeka 35
Locke v. Stearns 278, 435
Lockhart v. Van Alstyne 159, 179
Lockwood v. Mechanics' Nat. Bk .. 188, 416
Lockwood v. Merchants' Nat. Bk 413
Logan v. McAllister 29, 32
Lohman v. N. Y., etc., R. Co .. 181, 233, 274
Loker v. Brookline 286
London v. Vanacker 412

PAGE.

London, etc., Bk., Re 546
London, etc., Coal Co., In re 218
London, etc., Ins. Corp., In re 548
London & Provincial Law Ass. v. London Pro. Joint Stock Life Ins. Co ... 25
London, etc., R. Co. v Canal Co 780
London, etc., R. Co v. Freeman 172
London, etc., R. Co. v. Graham ... 146, 148, 173
London, etc., R. Co. v. McMichael 79
Londonderry v. Andover 13
Long v. Colburn 283, 293
Long Island R Co., Matter of 146, 313
Longley v. Little 113
Longmore v. G. W. Ry. Co 757
Loraine v. Cartwright 293
Lothrop v. Stedman 45
Loughbridge v. Harris 570, 573, 576
Louisiana v. Fordick 487, 500
Louisiana State Bk. v. Orleans Nav. Co. 66
Louisville v. Uni. of Louisville 649
Louisville R Co. v. Faulkner 795
Louisville, etc., R. Co. v. Comm 694
Louisville, etc., R. R. Co. v. Letson .. 79, 488, 493, 495
Louisville, etc., R Co. v. State ... 638, 796
Lovett v. Salem, etc., R. Co 723
Lovett v. Steam Saw Mill Asso 407
Low v. Connecticut, etc., R. Co 304
Low v. London, etc., R. Co 396
Lowber v. Mayor 41, 666
Lowell's case 232
Lowell v. Boston & Low R. Co 433
Lowell v. Oliver 690
Lowell Sav. Bk. v. Winchester 227, 289, 419, 431
Lowry v. Commercial, etc., Bk ... 105, 176
Lucas v. Pitney 343, 383, 386
Lucena v. Crawford 449
Ludlow v Charlton 409
Ludlow v. Hurd 383, 631, 637
Luling v. Atlantic Mut. Ins. Co 190
Lum v. Robertson 669
Lumbard v. Stearns 571, 658
Lunney v. East Warren Co 392
Luttrell v. Hazen 795
Lyman v. Bonney 523
Lyman v. Bridge Co 458, 717
Lynch v. Nurdin 462
Lyndeborough Glass Co. v. Mass. Glass Co 233
Lyon v. Adamson 271
Lyon v. Jerome 564
Lyons v. Martin 720
Lyons v. O. A. & M. R. Co 31, 64

Mabey v. Adams 241
Mabey v. Austin 303
McAfee's Heirs v. Kennedy 573
McAleer v. McMurray 516
Macauly v. Robinson 113
McBane v. People 673
McBride v. Porter 310
McCall v. Byram Man. Co 350
McCall v. N. Y. C. R. Co 788
McClanathan v. R. Co 730
McCleary v. Kent 734
McClellan v. Scott 442
McClung v. St. Paul 304
McCluer v. Manchester, etc., R. Co 375
McClure v. Bennett 298
McConahy v. Centre Turnp 671
McCracken v. San Francisco .. 239, 292, 355
McCray v. Junction R. Co 140, 143, 551
McCready v. Rumsey 200
McCulloch v. Maryland 14, 699, 706
McCulloch v. Moss 227, 289
McCullough v. Annapolis R. Co 423
McCully v. R. R. Co 128

PAGE.
McCurdy v. Myers 660
McCutcheon v. Steamboat Co 380
McDaniel v. Emanuel 467
McDaniels v. Flower Brook Manuf. Co., 312, 358
McDermott v. Board Police 417, 423
McDermott v. Evening Journal 453
McDiarmid v. Fitch 675
McDonald v. Chicago, etc., R. Co., 751, 753, 756, 759
McDowell v. Bk. Wilmington 104
McDowell v. N. Y. C. R. Co 793
McDowell v. Wash. Bk 430
McElhenny's appeal 139
Mackey v. N. Y. C. R. Co 786
McGehee v. Mathis 691, 698
McGoon v. Scales 664
Macgregor v. Deal, etc., R. Co., 302, 362, 383
McGregor v. Erie R. Co 560
Macgregor v. Dover, etc., R. Co 302
McGrew v. Stone 469
McGuire v. Grant 732
McGuire v. Hudson R. Co 789, 791
McIntire v. Preston 285
McIntyre v. N. Y. Cent. R. Co 479
McIntyre Poor Schools v. Zanesville Canal Co. 73, 650, 659, 666
Mackey v. N. Y. Cent. R. Co 787
McKarlin v. Bresslin 509
McKeen v. Northampton 695
McKellar v. Stout 113
McKeon v. Citizens' R. Co 795
McKim v. Mason 637
McKinley v. Chic. & N. W. R. Co..468, 473
McKinstry v. Pearsall 272
Maclae v. Sutherland 239
McLaren v. Pennington 131, 649, 659
McLaughlin v. Detroit, etc., R. Co.158, 179, 181, 233
McLean v. Russell 735
McMahan v. Morrison 547, 550
McMasters v. Comm 561
McMasters v. Reed 356
McMenty v. Frank 336
McMillen v. Smith 679
McMullin v. State 675
McMurtrie v. Bennett 527
McNeil v Tenth Nat. Bk ... 91, 97, 102, 190
Macon, etc., R. Co. v. Davis 792
Macon, etc., R. Co. v. Johnson 761
Macon, etc., R. Co. v. Parker 529, 534
Macon, etc., R. R. Co. v. Vason 139, 142, 534
Macon, etc., R. Co. v. Winn 792
McPadden v. N. Y. C. R. Co 751
McPherson v. Foster 357
McRea v. Russell 116, 118
McVicker v. Ross 553
McWhorter v. Lewis 286
McWhorter v. McMahan 527
Maddox v. Graham 352
Madison College v. Burke 483
Madison, etc., R. Co. v. Taffe 789
Madison, etc., R. Co. v. Watertown, etc., P. R. Co 66
Magill v. Kauffman 233, 287
Mahaska, etc., R. Co. v. Des Moines, etc., R. Co 215
Maher v. Carman 114
Mahoney v. R. Co 792
Mahony v. Bk. of Arkansas 28
Mahony v. East Holyford 256
Mahoney v. Spring Valley Water Wks. 368
Mahoney Mining Co. v. Bennett 213
Macine Stage Co. v. Langley 394
Malecek v. Tower Grove Co 270
Malloy v. Mallett 114, 669
Maltby v. N. Western R. Co 137, 505
Manderson v. Commercial Bk 514

PAGE.
Manhattan Co. v. Lydig 345, 450
Mann v. Chandler 283
Mann v. Cooke 147, 172, 541
Mann v. Currie 121, 147, 171, 173
Mann v. Prentz 144, 171, 406, 410, 541
Manney v. Motz 483
Monroe v. McCall 674
Mans v. Worthing 336
Manser v. Eastern Counties R. Co 741
Mansfield v. Watson 114, 436
Mansfield v. Fuller 675
Mansfield, etc., R. R. Co. v. Dunker ... 557
Man. Nat. Bk. v. Baach 492, 500
Man. Co. v. Armstrong 505
Manuf. Co. v. Davis 25
Mapp v. Phillips 294
Marble v. Worcester 463
Marblehead Social Ins. Co. v. Quiner. 187
March v. Eastern, etc., R. Co..154, 156, 204, 513, 516
Marchand v. Loan, etc., Assoc 34
Marcy v. Clark 40, 112
Mare v. Charles 286
Marietta v. Fearing 41, 416
Marietta Bk. v. Pindall 487
Marietta, etc., R. Co. v. Elliott 140
Marine Bk. v. Biays 159
Marine, etc., Ins. Bk. v. Jauncey 487
Mariners' Bk v. Sewall 664
Markham v Brown 772
Markle v. Akron 425
Marlatt v. Levee Steamb. Cotton Co ... 451
Marlborough Manuf. Co. v. Smith ... 96, 149, 164, 172, 198, 218, 224, 429
Maroney v. R. Co 762
Marsh v. Falker 446
Marsh v. Fulton Co 286, 302, 355
Marshall v. Baltimore, etc., R. Co 26, 307, 495, 500
Marshall v. Queensborough 526
Martin v. Gt. North. R. Co 752
Martin v. Mayor 286, 355
Martin v. Nashville Building Asso 412
Martin v. Pensacola Coal Co 134
Martin v Pensacola, etc., R. Co .. 124, 136
Martin v. Zellerbach 232, 295
Mary v. Beekman Iron Co 284
Maryland v. Baltimore, etc., R. Co 480
Maryland v. Bank of Md 530
Maryland, etc., v. Schroeder 525
Maryland Ins. Co. v. Dalrymple 93
Maryland Union Bk. v. Ridgely 233
Mason v. Cheshire Iron Works 114
Mason v. Elsworth 469
Mass. Gen. Hosp. v. State Asso. Co ... 649
Mass. Iron Co. v. Hooper 103, 197, 201
Master, etc., Emanuel College, Case of. 269
Masters v. Warren 468
Matheny v. Golden 427
Matheny v. Wolffs 737
Mathews v. Albert 114
Mathews v. Mass. Bk 196
Mathews v. Hamilton 294
Mattesor v N. Y. C. R. Co 469
Matthews v. G. Northern, etc., R. Co.. 178
Matthews v. Skinner 68, 338
Matthews v. Trustees 524
Matthews v. West London W. Co 782
Maux Ferry Gravel Co. v. Branigan. 257, 259
Maxwell v. Dulwich College 401
Mayer v. Penn. Slate Co 111
Mayhew's case 22
Mayor v. Bailey 571
Mayor v. Beasley 414
Mayor v. Charlton 380, 395
Mayor v. Seaber 483
Mayor v. Groshon 516, 524
Mayor v. Horner 365
Mayor v. Lord 685, 714

PAGE.
Mayor v. Norfolk R. Co. 302, 362, 379
Mayor v. Norwich R. Co. 651
Mayor v. Rainwater. 674
Mayor v. Ray 295
Mayor v. Shelton 18
Mayor v. Winfield 414
Mayor v. Yuille 67, 414
Maysville Turnpike Co. v. How 42
Mead v. Keeler. 30, 37, 274, 278, 386
Mead v. Smith 167
Mead v. Veeder 313
Meads v. Merchants' Bk. 444
Means v. Swormstedt 235
Mears v. London, etc., R. Co. 458
Mechanics' Bk. v. Bk. of Columbia 271, 279, 286, 338
Mechanics' Bk. v. Merchants' Bk. 162, 197, 534
Mechanics' Bk. v. Meriden Agency Co. 359
Mechanics' Bk. v. N. Y., etc., R. Co. 162, 187, 190, 207, 227, 287, 289, 431
Mechanics' Bank v. Thomas 202
Mechanics' Bk. Asso. v. White Lead Co. 383, 386
Mechanics', etc., Bk. v. Debolt. 42, 202, 691, 699
Mechanics', etc., Bk. v. Smith. 416, 419
Mechanics' Building Asso. v. Stevens. 671
Medical Inst. v. Patterson. 10
Medill v. Collier. 114
Medomak Bk. v. Curtis 239
Meech v. Smith 300
Meeker v. Meeker 526
Meers v. London & S. Western Ry. Co. 451
Meesel v. Lynn, etc., R. Co. 761
Meeting House v. Lowell. 695
Meikel v. German Sav., etc., Soc. 505
Mellen v. Whipple 427
Melvin v. Lumar Ins. Co. 171
Memphis v. Dean 509, 516
Memphis v. Lasser. 451
Memphis Branch R. R. Co. v. Sullivan 139
Memphis Freight Co. v. Memphis. 572, 577
Memphis & O. R. Co. v. Hicks. 782
Meagher v. County 303
Mendelsohn v. Anaheim Lighter Co. 468, 473
Menier v. Hooper's Tel. Works 516
Mentz v. Second Ave. R. Co. 788
Mercer v. R. R. Co. 569
Mercer Co. v. Hackett 351
Merchants' Bk. v. Cont. Bk. 239, 286
Merchants' Bk. v. Glendon Co. 37
Merchants' Bk. v. McCall. 285, 297
Merchants' Bk. v. Marine 274
Merchants' Bk. v. Richards 193
Merchants' Bk. v. State Bk. 229, 274, 277, 434, 444, 447
Merchants' Bk. v. Stone. 31
Merriam v. Moody's Exrs. 66
Merrick v. Brainard 328, 350
Merrick v. Burlington, etc., R. Co., 401, 410
Merrick v. Peru Coal Co 255, 484
Merrick v. Reynolds Engine Co. 35, 505
Merrill v. Suffolk Bk 667
Merrill v. Tariff Mem. Co 459
Merrimac, etc., Co. v. Bay City. 145
Merrimac Mining Co. v. Levy. 130
Merritt v. Ferris. 313
Mersey Docks' Trustees v. Gibbs. 453
Methodist Chappel Co. v. Herrick. 308, 410
Methodist, etc., Church v. Pickett 36
Methodist Episcopal Church v. Wood. 506
Metropolis Bk. v. Jones. 217
Metropolis Bk. v. Orme. 506
Metropolis Bk. v. Guttschlick, 270, 283, 408, 411
Metropolitan Saloon Omnibus Co. v. Hawkins 452

PAGE.
Meyer v. Midland, etc., R. Co 792
Meyer v. Second Ave. R. Co. 763
Meynot, Ex parte 364
Miami Coal Co. v. Wigton 578
Mich. Bk. v. Hastings 649
Mich. Bk. v. Williams 504, 506
Michoud v. Girod 254
Mickles v. Rochester City Bk., 525, 653, 657
Middle Bridge v. Brooks 66
Middlebrook v. Merchants Bk. 100
Middlebury Bk. v. Edgerton 217, 278
Middlebury Bk. v. R. & W. R. Co. 217, 405, 420
Middlesex Husbandman v. Davis. 24, 315
Middlesex R. Co. v. Boston, etc., R. Co., 215
Middlesex T. Co. v. Locke 127, 143
Middlesex Turn. Co. v. Swan 127
Middletown Bk. v. Russ 113
Middletown, etc., Turnp. Co. v. Watson, 149
Midland G. W. R. Co. v. Gordon 180
Midland Great Western Ry. v. Leech. 557
Mid. Ry. Co. v. Hudson 253
Milhau v. Sharp 416
Millard v. Eyre 522
Mill Dam Foundry v. Hovey. 392, 405, 411
Milledge v. Boston Iron Co. 394
Miller v. Chance 387, 631
Miller v. Craig 571
Miller v. Ewer. 26, 328, 350, 411, 615
Miller v. Frost. 573
Miller v. Hanover Junction & S. R. R. Co. 141
Miller v. Lancaster. 554, 556
Miller v. Milwaukee. 335
Miller v. N. Y., etc., R. Co. 566
Miller v. P. & C. R. R. Co 125
Miller v. Rutland, etc., R. Co. 215, 217, 351, 353, 387, 637
Miller v. State 65
Milligan v. Wedge. 435
Milliken v. Whitehouse. 114
Mills v. Camp 166
Mills v. Jefferson 353
Mills v. Stewart 98
Mills v. Williams 39, 44
Milwaukee & M. R. Co. v. Finney. 473, 774
Milwaukee, etc., R. Co. v. Hunter. 787, 790
Minard v. Mead. 282, 284
Miners' Bk. v. U. S 63, 649
Miners' Ditch Co. v. Zellerbach 66, 68, 286, 357, 360
Minhinnah v. Haines 676
Minn. Cent. R. v. McNamara 605
Min. Co. v. St. Paul Co. 530, 639
Minor v. Mechanics' Bk. 30, 118, 130, 274
Minot v. Paine. 155, 159, 161
Minter v. Pac. R. Co. 725
Minturn v. Larue 67
Mintzer v. Montgomery. 711
Mo. Bk. v. Merchants' Bk. 654
Miss. Bk. v. Wrenn 651
Miss., etc., R. Co. v. Camden 80
Miss., etc., R. Co. v. Cross. 134, 136, 443, 505
Miss., etc., R. Co. v. Gaston. 152
Miss. Soc. v. Musgrove. 31
Mitchell v. Deeds 275
Mitchell v. Rockland. 287, 355
Mitchell v. Rome R. Co. 118, 120
Mitchell v. Sproul. 336
Mitchell v. Vermont Copper Min. Co. 426
Mixer's case 439
Mobile v. Yuille 51
Mobile, etc., R. Co. v. Franks 339
Mobile, etc., R. Co. v. Mosely 43
Mobile, etc., R. Co. v. State. 650, 659
Mobile, etc., R. Co. v. Talman. 343, 388, 631
Moers v. Reading 711

PAGE.

Mohawk, etc., R. Co. v. Cluto..... 694
Mohawk & Hudson R. Co., Re..... 99, 693
Mohawk Bridge Co. v. U. & S. R. Co. 58, 339
Moise v. Chapman..... 543
Moises v. Thornton..... 406, 410
Mokelumne, etc., Co. v. Woodbury. 32, 112
Monongahela Bridge Co. v. Kirk..... 735
Monroe Co. Sav. Bk. v. Roch. 711
Montague v. Church School Dist..... 358
Montoya v. London Ass. Co 462
Montpelier v. East Montpelier..... 668
Monument Nat. Bk. v. Globe Works... 357, 383
Moody v. Keener..... 93
Moody v. Osgood..... 468
Moody v. Wright..... 388
Moore v. Bk. of Commerce 161, 416
Moore v. Fitchburgh R. Co.... 457, 716, 732, 738, 762, 764, 795
Moore v. Hammond..... 312
Moore v. Sanborne 733
Moore v. Whitcomb 659
Morell v. Codding..... 285
Morford v. Farmers' Bk..... 383
Morgan v. Bank of North America.... 103, 430
Morgan v. Donovan. 307
Morgan v. Louisiana 703
Morgan v. Skiddy 242
Morrill v. Noyes. 388, 631
Morris v. Keil 396
Morris Canal Co. v. Lewis..... 351
Morris Canal, etc., Co. v. Townsend ... 566
Morris, etc., R. Co. v. Miller..... 691
Morris, etc., R. Co. v. Newark.. 338
Morris, etc., R. Co. v. Sussex R. Co.... 68
Morrison v. Eaton, etc., R. Co..... 342
Morse v. Auburn, etc., R. Co..... 468
Morse v. Erie R. Co..... 788
Morse v. Swits 242
Mortimer v. McCallan 197, 509
Morton Gravel R. Co. v. Wysong..... 412
Mosler v. Potter 36
Moss v. Averell..... 114, 233, 295, 386
Moss v. Haspeth Academy..... 336, 343
Moss v. Livingston..... 298
Moss v. McCullough 112
Moss v. Oakley 112, 114
Moss v. Rossie Lead Co 233, 388
Mott v. Hicks. 271, 288, 297, 342, 386, 394, 396
Mott v. Palmer 638
Mott v. Penn. R. Co.. .....427, 698
Mott v. U. S. Trust Co..... 338, 371
Mt. Holly, etc., T. Co. v. Ferree... 188, 190, 192
Mount Wash. Road Co , Petition 566
Mount Sterling v. Looney 279
Mousseaux v. Urquhardt 99
Mowrey v. Ind. & Cin. R. Co.... 42, 44, 150, 311, 550, 553
Muir v. Louisville & Portland Canal Co..... 395
Muller v. Dows..... 554
Mullins v. North, etc., R. Co.... 139
Mumma v. Potomac Co .. 206, 244, 246, 515, 650, 659, 664, 668
Municipality v. Cutting..... 425
Munn v. Barnum 187
Munn v. Comrs. Co..... 386
Munn v. Illinois..... 49
Munn v. People..... 52
Munroe v. Thomas.. 528
Munsell v. Temple 373
Munt v. Shrewsbury, etc., R. Co ..516, 526
Murdock v. Gifford 638
Murphy v. Bk. of Arkansas 28
Murphy v. Caralli 731
Murphy v. Farmers' Bk..... 613, 618, 624
Murray v. Currie 732

PAGE.

Murray v. East India Co..... 269
Murray v. Lardner..... .....351, 353
Murray v. Vanderbilt 255
Muscatine v. R. R. Co..... 670
Muscatine Turn Verein v. Funk... 664, 669
Muskingum, etc., R. Co. v. Ward 153
Mussey v. Eagle Bk..... 274
Mut. Benefit L. Ins. Co. v. Davis 485
Myers v. Manhattan Bk.....19, 654

Naber v. Bright.. 25
Nabor, Matter of.... 674
Naglee v. Pac., etc., Warf. Co..... 191, 200
Napa Valley R. Co. v. Napa Co 685
Napier v. Poe... 116
Narragansett Bk. v. Atlantic Silk Co.. 31, 35, 37, 203, 308
Nashville Bk. v. Petway 656, 666
Nashville, etc., R. Co. v. Messino . . . 750
Nathan v. Whittock... .... 541, 664
Nat., etc., Assurance Co., In re 556
Nat. Bk. v. Colby..... 657
Nat. Bk. v. Comm..... 711
Nat. Bk. v. Lake Shore, etc., Ry. Co.. 192
Nat. Exchange Bank v. Hartford, etc , R. Co..... 351, 353
Nat. Ex. Co. v Drew.. . .437, 450, 453
National Patent Steam Fuel Co., Ex parte 179, 437
Natoma W. & M. Co. v. Clarkin 374
Nebraska v. Campbell..... 469
Neal v. Pittsburgh & Connellsville Ry. Co. 604
Neall v. Hill.....204, 523, 535
Neiler v. Kelly..... 93
Nelson v. Blakey..... 137
Nelson v. Eaton..... 387
Nelson v. Iowa Eastern R. Co. 643
Nelson v. Justices..... 677
Nelson v. Luling ... .244, 246
Nesbitt v. Trumbo 561
Nesmith v. Wash Bk... 429
Neuse River Nav. Co. v. Com. of Newbern 122
Neville v Wilkinson.. 278
Nevitt v. Bank..... 664
New Albany v. Burke 669
New Albany, etc., R. Co. v. Fields..... 121
New Albany, etc., R. Co. v. McCormick, 152
New Albany, etc., R. Co. v. McNamara, 793
New Albany, etc., R. Co. v. Smith ... 352
New Bedford, etc., Co. v. Adams... 145
Newberry v. Detroit, etc..... .... 199, 202
Newberry v. Garland... 242
New Boston v. Dumbarton.....13, 28
New Brunswick, etc., Ry. Co. v. Conybeare ... .437, 439, 453
Newby v. Oregon, etc , R. Co.. 25
Newcastle R. Co. v. Peru, etc., R. Co.. 552
New Cent. Coal Co. v. George's Creek Coal, etc., Co..... 571
Newcomb v. Smith..... 573
Newell v. Smith..... 288, 573
New England Car Spring Co. v. Union India-rubber Co..... 68
New Eng. Ins. Co. v. De Wolf 283, 288
New Hampshire, etc., R. Co. v. Johnson... 119
New Haven Co. v. Hayden 279
New Haven R. Co. v. Chapman 35
New Hope & D. B. Co. v. Phœnix Bk.. 237, 239
New Hope, etc., Co. v. Pough. Silk Co., 487
N. J. M. R. Co. v. Strait..... 554
New Jersey Nav. Co. v. Merchants' Bk. 52
New Jersey v. Wilson. 699
Newling v. Francis..... 412
Newman, Ex parte..... 674
New Orleans v. Philippi..... 414

PAGE.

New Orleans Gas-light Co. v. Bennett.. 542
N. O. R. R. Co. v. Bailey 452
New Orleans, etc., R. Co. v. Harris, 42, 215
New Orleans, etc., R. Co. v. Hurst. .. 474
New Orleans, etc., R. Co. v. Statham.. 474, 759
New Orleans, etc., R. Co. v. Williams, 135
Newry, etc., Ry. Co. v. Edmonds 103
Newson v. N. Y. C. R. Co... 789
Newson v. Thornton 272
Newton & Bridgeport Turnp. Co. v. Northrop 167
Newton, etc., Co. v. White 659
N. Y. Bk. v. Bk. Ohio 297
N. Y. Bk. v. Farmers' Bk 297
N. Y., etc., Canal Co. v. Fulton.... .. 548
N. Y. Dry Docks v. Hicks 485
N. Y. Exch. Co. v. DeWolf..... 122, 134
N. Y. Floating Derrick Co. v. N. J. Oil Co 328, 350
N. Y. F. Ins. Co. v. Ely..... .. .. 69, 485
N. Y. L. Ins. & Trust Co. v. Beebe 390
N. Y., etc., R. Co. v. Ketchum, 257, 259, 261, 303
N. Y., etc., R. Co. v. Kip 339, 570
N. Y., etc., R. Co. v. N. Y.... 410
N. Y., etc., R. Co. v. Sabin 695
N. Y., etc., R. Co. v. Schuyler, 91, 102, 171, 186, 188, 195, 207, 209, 434, 444, 532, 716
N. Y. & E. R. Co. v. Young 785
N. Y. Trust & Loan Co. v. Helmer..70, 389
New Zealand Bk. Co., Re 232
New Zealand Caulking Co. v. Blakely Ordinance Co... 350
Ney v. Richards..... 676
Niagara Bk. v. Johnson..... 653
Nichol v. Nashville..... 711
Nicholas v. Oliver..... ... . 270, 285
Nichols v. Burlington, etc., Plank R. Co 128
Nichols v. Frothingham 285, 296
Nichols v. Oliver 296
Nichols v. Somerset, etc., R. Co..... 561
Nicholson v. Bradford 404
Nicholson v. Erie R. Co 789
Nicholson v. Lan. & York R. Co..... 752
Nicholson Pavement Co. v. Painter ... 66
Nickerson v. Wheeler..... 241
Nicol's case 437
Nicoll v. N. Y. & Erie R. Co... 588, 652
Nieto v. Clark 762, 765, 771, 774
Nimmons v Tappan 657
Niven v. Spikerman 12
Nixton v. Hyserott 272
Norris v. Irish Land Co..... 679, 680, 687
Norris v. Trustees..... 41, 44
Norris v. Staps 421
Norris v. State..... 412
North v. Forest 93
Northampton Bk. v. Pepoon.. ... 217, 232, 280, 286
Northampton Bk v. Smith 216
North E. & S. W. R. Co., Ex parte..... 46
Northern Cent. R. Co. v. Bastian 280, 410
North Liberties v. Cresson 371
Northern R. Co. v. C. R. Co 563
Northern R. Co. v. Miller. 62, 130, 145, 147
Northern, etc., Tea Co., In re..... 198
North Hempstead v. Hempstead 10
North Penn. R. Co. v. Adams 353
North Penn. R. Co. v. Heilman 786
North Penn. R. Co. v. Robinson 479
North Riv. Bk. v. Aymar.227, 278, 289, 445, 730
Northrop v. Curtis 164, 429
Northrop v. Newton, etc., Turnp. Co .. 96, 164, 197, 429
North Shore Ferry Co., Matter of ... 106
North Stafford Steel Co. v. Warth..... 132
North Staffordshire R. Co. v. Dale 781

PAGE.

North Western Distillery Co. v. Brant. 26
North Whitehall v. South Whitehall .. 394
North Yarmouth v. Skillings..... 41
Norwich, etc., Co. v. Theobald 119
Noyes v. Loring 300
Noyes v. Rut. & Burl. R. Co..... ... 433
Noyes v. Spaulding..... 100, 187, 197
Nugent v. Cin., etc., R. Co 443
Nugent v. Supervisors 351, 548, 550

Oakes v. Hill..... 6
Oakes v. Turquand..... 440, 446
Oakland R. Co. v. Keenan..... 531
Oakley v. Paterson Bk.. 535
O'Brien v. Chic., etc., R. Co... 525
O'Connell v. Strong 795
Odd Fellows' Hall Co. v. Glazier 141
Odiorne v. Maxcy 293, 446
O'Donald v. Evansville R. Co..... 129
O'Donnel & Alleghany R. Co..... 761
O'Donnell v. Bailey 699
Ogden v. Murray 248, 252
Ogden v. Raymond..... 300
Ogden v. Rollo 114
Ogdensburgh, etc., R. Co. v. Frost, 79, 146, 148
Ogdensburgh, etc., R. Co. v. Vermont, etc., R. Co..... 390
Ogdensburgh, etc., R. Co. v. Wolley, 116, 152
Ogilvie v. Knox Ins. Co 136, 443 541
O'Hara v Lexington, etc., R. Co..... 561
Ohio v. Cleveland, etc., R. Co 159
Ohio L. Ins. Co. v. Merchants' Ins. Co., 359
Ohio L. & T. Co. v. Debolt 699
Ohio Life Ins. & T. Co. v. Merchants' Ins. & T. Co..... 115
Ohio, etc., R. Co. v. Davis. 538. 646
Ohio, etc., R. Co. v. McPherson, 266, 329, 350
Ohio, etc., R. Co. v Wheeler..... 495
Olcott v. Supervisors 571
Olcott v. Tioga Ry. Co.... 233, 285, 295, 297, 386
Old Colony R. R. Co. v. Evans..... 335
Old Dominion Bk. v. McVeigh..... 44
Oldtown, etc., R. Co. v. Veazie, 63, 119, 149
Oler v. Baltimore, etc., R. Co..... . 139
Oliver v. Liverpool Ins. Co..... 690
Oliver v. Northern Turnp. Co 730
Oliver v. Wash. Mills 690
Oliver Lee & Co.'s Bk. 64
Olmstead v. Camp 569, 571
O'Mara v. Hudson R. Co 786
Oregon Cascade Co. v. Bailey 578
Oregon, etc., R. Co. v. Scoggin 443
Ormsby v. Vermont Copper Mining Co. 328, 350, 653
Orono v. Wedgewood.... 506
Orr v. Bigelow 187
Orr v. U. S. Bk 717
Osborn v. Bk. U. S 14, 410, 708
Osgood v. King 171
Osgood v. Laytin 542
Osgood v. Ogden..... 131, 248
Ossipee Manuf. Co. v. Canney 35, 123, 142, 375
Oswego Bk. v. Babcock. 346
Ottawa v. People 673
Ould v. Richmond 698
Overseers v. Mayor..... 286
Overseers v. Overseers.. 403
Overseers of Poor v. Sears 5
Owen v. Smith..... 668
Owen v. Van Ulster 243, 245
Owings v. Hall..... 294
Owings v. Speed..... 13, 308, 410
Owsley v. Montgomery, etc., R. Co... 453, 796
Oxford v. Bunnell..... 429
Oxford Iron Co. v. Spradley.....386, 502

PAGE.
Oxford Turnp. Co. v. Bunnel 165
Pacific Bank v. De Roe 25
Pac. R. Co. v. Cass Co..... 637
Pac. R. Co. v. Chrystal 606
Pac. R. Co. v. Hughes 63, 140
Pac. R. Co. v. Lincoln Co..... 14
Pac. R. Co. v. Maguire..... 608
Pac. R. Co. v. Seely..... 69, 252
Page v. Board of Trade..... 84
Page v. Defries..... 795
Page v. Hardin 676
Page v. Mitchel..... 469
Paice v. Walker 296
Paine, Ex parte 678
Paine v Guardians', etc., Union 404
Paine v Lake Erie, etc., R. Co. 248, 554, 558
Paine v. Leicester 683
Paine v. Strand Union 380, 395
Paine v. Wright & Ind. & Bellefontaine R. Co..... 692
Painter v. Pittsburg 732, 734
Palfrey v. Paulding..... 32
Palmer v. Forbes..... 529, 635, 638, 641
Palmer v. Lawrence..... 131, 147
Palmer v. Medina Ins. Co..... 395, 403
Palmer v. Merrill 186
Palmer v. Ridge Mining Co..... 141, 171
Palmerton v. Huxford 293
Palmyra v. Morton..... 107
Panton v. Holland 609
Parish v. Wheeler..... 279, 375, 387, 389
Park Bk. v. Nichols..... 500
Parker v. Anderson..... 675
Parker v. Foote 609
Parker v. Metropolitan, etc., R. Co... 651
Parker v. Thomas..... 134
Parker v. Scogin 711
Parkham v. Decatur County 561
Parks v. Evansville, etc., R. Co..... 123
Parmly v. Tenth Ward Bk..... 542
Parrot v. Byers 191
Parsons v. Goshen..... 287, 355
Partridge v. Badger 278, 343, 386
Paschall v. Whitsett..... 650, 657, 664
Passenger R. Co. v. Donahue 469
Passenger R. Co v. Young 762, 794
Paterson v. Baumer 574
Patten v. Rea 795
Patten v. Chicago, etc., R. Co..... 752
Patten v. North Cent. R. Co..... 605
Patterson v. Baker 242
Patterson v. Keystone, etc., Co 336
Paterson v. Mayor 239
Patterson v. Miss., etc., Boom Co..... 574
Patterson v. Soc., etc 41
Patterson v. Wyomissing, etc., Co. .. 114
Paul v. Virginia 23, 347, 488, 490
Paulk v. S. W. R. Co 760
Paulmier v. Erie R. Co 480
Pawle's case..... 441
Pawlet v Clark..... 4, 12, 20, 649
Payne v. Baldwin..... 649
Payne v. Elliott..... 93
Payson v. Strever..... 206, 237, 295
Peabody v. Flint 203, 248
Pearce v. Olney 654, 671
Pearce v. R. R. Co..... 225, 286, 383, 548
Pearson v. Morgan..... 278
Pease v. Peck 507
Peck v. Gurney 241, 303, 441, 446, 449
Peck v. Harriott..... 271
Peck v. R. Co 416, 727, 731, 737
Pedrick v. Bailey 414
Peele v. Phillips..... 114
Peik v. Chicago, etc., R. Co. 47
Peirce v. Somersworth 566, 671
Pendergast v. Stockton Bk 416, 424
Pendergast v. Turton..... 146

PAGE.
Pendleton v. Army..... 713
Pendleton v. Bk..... 275
Peninsular Ry. Co. v. Thorp..... 557
Penniman v. Briggs. 659
Pennock v. Coe. 339, 387, 631, 634, 638, 641
Penn. v. Wheeling Bridge Co 79
Penn. Bk. v. Commonwealth..... 28, 217, 237, 239, 274
Penn. Canal Co. v. Graham 469
Penn. R. Co. v. Barnett 786
Penn. R. Co. v. Canal Co. 13, 39, 67, 339, 344
Penn. R. Co. v. Dandridge ... 238, 296, 359
Penn. R. Co. v. Henderson 479
Penn. R. Co. v. Keller 480
Penn. R. Co. v. Kerr 461
Penn. R. Co. v. Kilgore..... 760
Penn. R. Co. v. McCloskey..... 479
Penn. R. Co. v. Philadelphia 712
Penn. R. Co. v. Vandever..... 457, 479
Penn. R. Co. v. Weber..... 790
Penn. R. Co. v Zebe 479
Penn. Steam Nav. Co. v. Hungerford . 435
Penobscott Broom Co. v. Lamson..31, 41, 66, 505, 650, 652, 659, 666
Penobscot R. Co. v. Bartlett 142
Penobscot R. Co. v. Dummer..117, 121, 142, 180, 305
Penobscot R. Co. v. Dunn ... 121, 142, 218
Penobscot R. Co. v. White 119, 121, 127
Pentz v. Fire Ins. Co..... 415
Pentz v. Stanton 282, 284
People v. American Institute 88
People v. Albany, etc., R. R. Co.. 160, 211, 660
People v. Ballou 242
People v. Bk. Hudson 659
People v. Bk. Niagara 650
People v. Batchelor. 312. 316, 628
People v. Beigler 36
People v. Board of Met. Police.... 673, 676
People v. Bd. Supervisors..... 711
People v. Board of Trade..... 89
People v. Bogart 620
People v. Bristol, etc., Turnp. Co..620, 653, 657
People v. Brooklyn 677, 690, 692
People v. College of California 73, 660. 664
People v. Chica Co..... 675
People v. Chic., etc., R. Co 688
People v. Clark 616
People v. Comrs 158
People v. County 355
People v. Crockett..... 413
People v. Detroit 678
People v Devin..... 96, 201
People v. Dispensatory, etc., Soc.. .. 650
People v. Easton..... 675, 677
People v. Elmore 191, 200
People v. Fairbury..... 667
People v. Fishkill P. R Co..... 653
People v. Geneva College 613
People v. Grand, etc., Plank R. Co.... 65
People v. Gray,..... 355
People v. Green. 677
People v. Hatch 673
People v Hayden 598, 605
People v. Head 677
People v. Hilliard 677
People v. Hills 614
People v. Hillsdale & Chat. Turnp. Co. 613, 619, 653
People v. Hoffman 711
People v. Hudson Bk..611, 627, 650, 655, 659
People v. Jackson P. R. Co..... 44, 649
People v. Jackson T. Co..... 658
People v. Jameson 675
People v. Judges, etc..... 674, 677, 679
People v. Kingston, etc., Turnp. Co... 616, 620, 650, 654, 658

PAGE.
People v. Law..... 779
People v. Loucks 677
People v. Manhattan Co..... 44, 650, 653
People v. Marshall 612, 649
People v. Martin 317
People v Maynard..... 13
People v. Mayor, etc., N. Y.... 561, 565, 678
681, 711
People v. Med. Soc. of Erie 86, 88, 417
676
People v. Minor.. 678
People v. Mitchell..... 713
People v. Morris.... 40
People v Mott..... 680
People v Nearing..... 571
People v. N.Y. Board of Underwriters. 86
87
People v. N. Y. Commercial Asso 87
People v. N Y.Cotton Exchange 86
People v. N. Y. Gas L. Co 779
People v. N Y. Loan Commercial.. . 84
People v. Niagara Bk 612, 627, 655
People v. Olmstead 676
People v. Pac. Mail Steamship.... 177, 686
690
People v. Pearson 677
People v. Peck 315
People v. Peirce 693
People v. Phœnix Bk..... 654
People v. Platt 779
People v. Sailors' Snug Harbor.. 85, 89, 413
People v Salem 570, 713
People v. Salomen. 678
People v. St. Fransiscus Benev. Soc ... 83
88
People v. Sar. & Rens. R. R. Co ... 616, 628
People v. Smith 569, 577
People v Society, etc 652
People v. Steele. 680
People v. Supervisors 673, 677
People v. Sweeting 615, 655
People v. Thompson..... 626, 658, 673, 677
People v. Throop ... 216, 412, 414, 509, 680
686, 688
People v. Tibbets ... 413, 421, 423, 620, 625
People v. Troy, etc., R. Co.... 676, 678, 680
People v. Turn. & Bridge Co..... 506
People v. Utica Ins. Co.... 69, 338, 356, 612
616, 618, 620, 622
People v. Vein Coal Co..... 100
People v. Waite 655
People v. Walker 652, 686
People v. Washington Bk 650, 653, 655
People v. Whitcomb 619
People v. White..... 566
People v. Williams..... 676
People v. Wren 41
People v. Young Men's, etc., Soc .. 88, 329
Peoples' Bk. v. Gridley 92
Peoples' Ferry Co. v. Balch. 117, 180
Peoples' Ins. Co v. Westcott..... 312, 316
Peoria v. Calhoun 417, 421
Peoria Bk. Ass. v Loomis..... . 468
Peoria, etc., R. Co. v. Etting..... 119, 147
Peppin v Cooper 279
Percy v. Millandon .. 217, 231, 243, 245, 247
Perkins v. Church 114
Perkins v. Missouri..... 474
Perkins v. N. Y., etc., R. Co. 442
Perkins v. Wash Ins. Co 233, 271, 300
Perkins v. White 527
Perley v. Eastern R. Co.... ..... 462, 466
Perrine v. Chesapeake, etc., Canal Co. 58
66, 69, 339, 384
Perry v. Wilson..... 561
Peruvian R. Co. v. Thames, etc., Co .. 70
385
Petersburgh v. Matzker 356
Peterson v. Mayor 232, 380, 394

PAGE.
Petrie v. Wright..... 175, 395, 401, 403
Petroleum Co. v. Weare..... 347
Phenix Bk. v. Curtis 505
Phenix Bk. v. Donnell 504
Philadelphia v. Field..... 41
Phila. v. Flanigen..... 286
Phila. v. Given 260, 303
Phila. v. Lewis, etc., R. Co 355
Phila. v. Read. R. Co 730
Phila., etc., R. Co. v. Bayless 696
Phila., etc., R. Co. v. Cornell 159
Phila., etc., R. Co. v. Derby . 433, 457, 738
762, 773, 778
Phila., etc., R. Co. v. Hickman.. 122, 124
Phila., etc., R. Co. v. Quigley ... 434, 452
458
Phila., etc., R. Co. v. State 696
Phila., etc., R. Co. v. Steam Tow-Boat
Co 730
Phila., etc., R. Co. v. Wilt.... 457
Phila , etc., R. Co. v. Woelpper.. 388, 631
Phila. Sav. Bank case..... 413
Phillips v. Allen 417
Phillips v. Berger 101
Phillips v. R. & S. R Co. 761
Phillips v. Wickham..... 107, 413, 421, 656
666, 671
Phillips Limerick Academy v. Davis... 315
Phosphate of Lime Co. v. Green..... 233
Pickens v. Diecker 795
Pickering v. Pickering 526
Pickering v. Templeton..... 139
Picket v. Crook. 474
Pickett v. Pearson 295
Pickett v. School Dist. No. 1 , etc.... 249
Pickett v. White.. 678
Pierce v. Emery.. 215, 387, 530, 631, 634, 637
Pierce v. Gibson 93
Pierce v. Milwaukee, etc., R. Co... 388, 631
Pierce v. Partridge 530
Pierce v. St. Paul, etc., R. Co..... 388
Pierce v. Somersworth 654
Pierce v. Thompson 259
Pierson v. Washington Bk 201
Pigg v. Corder..... 526
Piggot v. Eastern, etc., R. Co 462
Pinkerton v. Man. & L R. Co..... .. 201
Piqua Bk. v. Knoop 44, 699
Piscataqua Bridge v. N. H. Bridge, 552, 563
Piscataqua Ferry Co. v. Jones, 116, 134, 136
147, 443
Pitcher v. Hennessy..... 302
Pitts v. Shubert 295
Pittsburgh v. Scott.. 598
Pittsburgh, etc., R. Co v, Alle. Co .. 179
Pittsburgh, etc., R. Co. v. Biggar. 124, 130
Pitts , etc., Co. v. Clark.. . ..... 172, 201
Pitts., etc., R. Co. v Dunn 787, 790
Pitts., etc., R. Co v. Gazzam 294
Pitts., etc , R. Co. v. Gilleland.... 739, 781
Pitts., etc., R. Co. v. Graham. . . 133, 144
Pitts., etc., R. Co. v. Hinds....764, 773, 774
Pitts., etc., R. Co. v. Methoen..... 793
Pitts , etc , R. Co. v. Pearson 792
Pitts , etc., R. Co. v. Plummer..... 144
Pitts., etc., R. Co. v Stewart..... 133
Pitts., etc., R Co. v. Thompson..... 480
Plankroad Co. v. Arndt 128
Plankroad Co. v. Husted 427
Plankroad v. Payne 147
Planters' Bk v. Alexandria Bk ... 654, 671
Planters' Bk. v. Leavens 184, 189
Planters' Bk. v. Rivingsville Cotton
Man. Co 115
Planters' Bk. v. Sharp..... 44, 239
Plate Man. Co. v. Meredith 565
Platt v. Archer 657
Platt Receiver, etc., In re..... 664
Player v. Jones.. 417

PAGE.

Player v. Vere 417
Pleasant Bk., In re..... 614
Plitt v Cox 668
Plymouth v. Jackson 41
Plymouth Bk. v. Bk Norfolk 430
Plymouth Christian Soc. v. Macomber, 36
Plymouth R. Co. v. Colwell 529
Polar Star Lodge v. Polar S. Lodge, 248, 660
Police Jury v Britton 351, 386
Police Jury v. Shreveport 41
Pollard's Lessees v. Hagan. 561
Pollock v. Nat. Bk. 101, 105
Pomeroy v. Bank..... 664
Pomeroy v. N. Y., etc., R. Co. 495
Ponchartrain R. Co. v. Paulding.. 241, 243
245
Pond v. Negus 426
Pondville Co. v. Clark 657
Poor v. European, etc., R. Co.. 248
Poor v. Sears..... 27
Port Gibson v. Moore 669
Port of Lond Assurance Co. case ... 316
Porter v. Androscoggin, etc., R. Co... 392
405
Porter v. Harris..... 677
Porter v. McCollum 352
Porter v. Necerrvis 483
Port v. Russell 248
Portland Bk. v. Apthorp..... 690
Portland R. Co. v. Graham 142
Portsmouth Livery Co. v. Watson..485, 487
Potter v Bk. Ithaca..... 381
Potter v. Seymour 732
Pottstown Gas Co. v. Murphy.....605, 785
Poughkeepsie P. R. Co. v. Griffin..117, 132
Poultney v. Wells 394
Poulton v. London, etc., R. Co.451, 727, 795
Powell v. Deveny 462
Powell v. Hannibal, etc., R. Co..... 793
Powell v. Newburgh 410
Powell v. North Mo. R. Co. 547, 558
Powell v Salisbury 467
Powers v. Skinner 306
Praeger v. Bristol & E. Ry. Co.....757, 758
Prater v. Miller..... 527
Pratt v Bacon 114
Pratt v. Jewett 660
Pratt v. Meriden Cutlery Co..... 686
Pratt v. Pratt 517
Pratt v. Putnam 446
Pratt v. Tilt 91
Presbyterian Cong. v. Johns..... 318
President, etc., Jacksonville v. Mc
Connel..... 356
Preston v. Dubuque, etc., R. Co...583, 605
Preston v Grand Coll. Dock Co..... 143
Preston v. Liverpool, etc., R. Co..304, 359
424
Prettyman v. Supervisors..... 80
Priest v. Essex Hat Mfg. Co..... 35
Priester v. Angley..... 795
Prouty v Lake Shore, etc., R. Co..... 558
Prouty v. Michigan S., etc., R. Co. .. 179
Providence Bk. v. Bellings ... 39, 339, 705
Prov., etc., R. Co v. Wright..... 694
Provident Inst. v. Mass. 711
Pulford v. Fire Dept. Detroit 424
Pullan v. Cincinnati R. Co.215, 387, 635, 639
Pulliam v. Owen 527
Pullman v. Cincinnati R. Co..... 387
Pumpelly v Phelps..... 296
Purchase v. N. Y. Exchange Bk 100
Purton v. N O , etc., R. Co..... 150
Putnam v. New Albany..... ... 124, 171
Putnam F. School v. Fisher..... 505
Pyne v. Great N. R Co..... 480

Quarman v. Burnett 435
Quimby v. Vt. Cent. R. Co 793

PAGE.

Quin v. Moore..... 479
Quin v. Ill. Cent. R. Co..... 761
Quincy Canal v. Newcomb..... 653
Quiner v. Marblehead Ins. Co. 103, 161, 429

Racine, etc., R. Co. v. Farmers' Loan
Co 560
Ry. Co. v. Allerton..... 216, 224
R. Co. v. Anthony..... 762
R. Co. v. Archer 780
R. Co. v. Aspell 756, 762
R. Co. v. Berks Co..... 695
R. Co. v. Blocher 472, 762
R. Co v. Canal Co 781
R. R Co. v. Chenoa..... 13
R. Co v. Clinton Co 677
R. R. Co. v Davis..... 588
R. Co. v. Derby..... 764
R. Co. v. Douglass 28
R. Co v. Finney..... 762, 764
R. Co. v. Goodwin..... 557
R. Co v. Harris 559
R. Co. v. Hinds 762
R. Co. v. Howard 375, 515
R Co. v. Hurst 472
R. Co. v. James..... 639
R. Co. v Kenney 563
R. Co. v. Kip 569
R. Co. v. Plumas Co..... 13
R. Co. v. Rodrigues..... 146, 444
R Co. v. Seeley..... 339
R. Co. v. Soutter 388, 631
R. Co. v. Stout..... 792
R. Co. v. Vandiver..... 762, 764
R. Co. v. Whitton 493, 559
R. Co. v. Wyandot Co..... 678
Railsback v. Liberty, etc , Turnp. Co.. 505
Raleigh, etc., R. Co. v. Reid..... 700
Ramsden v. Boston, etc., R. Co .. 457, 717
720, 724, 727, 731, 762, 794
Rand v. Hubble 157, 161
Randall v. Elwell..... 530
Randall v. Van Vechten . 233, 270, 284, 410
Randleson v. Murray..... 435
Ranger v. Great Western R. Co..... 433
Ranson v. N. Y., etc., R. Co..... 468
Rapson v. Cubitt..... 435, 735
Rawson v. N. Y. & Erie R. Co 469
Raymond v. Caton 148
Read v. Frankfort Bk..... 650, 664
Readhead v. Midland..... 741
Reading v. Comrs 673
Reapers' Bk. v. Willard..... 46
Reddall v. Bryan 571
Redge Turnpike Co. v. Staener..... 356
Redmond v. Dickerson 248
Red Riv. Bridge Co. v. Clarksville..... 566
Red River Turn. Co. v. State..... 796
Reed v. Bradley 410
Reed v. Jones..... 333
Reed v. N Y. C. R. Co..... 741, 751
Reedie v. London, etc., R. Co..... 734, 795
Reese v. Bk Montgomery Co 182
Reese Riv. S. M. Co., In re 441
Reese Riv. Min. Co. v. Smith..... 448
Reformed, etc., Church v. Brown 180
Regents, etc., v. Detroit..... 271, 283, 392
Regents, etc., v. Williams..... 41, 649, 655
Regina v. Archdall 626
Reg. v. Baines 681
Reg. v. Birmingham, etc., R. Com. 433, 453
688, 796
Reg. v. Boucher. 11
Reg. v. Cumberland 270
Reg. v. Deptford Pier Co 687
Reg. v. Derbyshire, etc., R. Co... 683, 687
Reg. v. Eastern Counties R. Co., 591, 604, 687
Reg. v. Gen. Cem. Co 680, 684
Reg. v. G. N. of E. R. Co 453, 796

PAGE.

Reg. v. Governors 423
Reg. v. Hereford 672
Reg. v. Kendall 680
Reg. v. London, etc., R. Co 680, 684
Reg. v. Londonderry, etc., Ry. Co .. 103
Reg. v. Longton Gas Co 453
Reg. v. Mayor 453
Reg. v. Midland, etc., R. Co 680
Reg. v. Pepper 626
Reg. v. Powell 672
Reg. v. Quale 626
Reg. v. Queen, etc., Co 530
Reg. v. Registrar, etc 24
Reg. v. St. Paul, etc 404
Reg. v. Saddlers' Co 423, 679
Reg. v. Scott 796
Reg. v. Sheffield Gas Co 796
Reg. v. Slatter 626
Reg. v. Stephens 453, 796
Reg. v. Train 781
Reg. v. Trustees, etc 687
Reg. v. United Kingdon Electric Tel. Co.. 453
Reg. v. Victoria Park Co..... 530, 541, 684
Reg. v. White 378
Reg. v. Wing 103, 680, 684
Reg. v. York North Midland R. Co..... 604
Reid v. Hibbard 293
Reid v. Jones 525
Reiff v. Connor 426
Reitenbaugh v. Chester Valley R. Co.. 592
Rensselaer, etc., P. R. Co. v. Bartow.. 117, 131, 147, 180
Rensselaer, etc., R. Co. v. Davis... 339, 569, 577, 590
Rensselaer, etc., R. Co. v. Wetsel..... 119
Reprocity Bk., Matter of..... 649
Republic Bk v. Hamilton County..46, 704
Reuter v. Electric Tel. Co..... ..239, 396
Revere v. Boston Copper Co..... 308, 660
Rex v. Amery 31, 654, 659
Rex v. Anderson 615
Rex v. Archbishop Canterbury 682
Rex v. Ashwell 30, 426
Rex v. Atwood 312, 423
Rex v Barber Surgeons 421
Rex v. Barker 672, 681, 683
Rex v. Bedford Level Corp..... 681
Rex v Bibb 401
Rex v. Bigg 269, 365
Rex v. Bird 312, 423
Rex v. Bishop of Chester 682
Rex v. Bishop of Ely 509
Rex v. Carmarthen 654
Rex v. Chancellor, etc., of Cambridge 681
Rex v. Chetwynd 312
Rex v. Comrs. of Excise 682
Rex v. Cooper, etc., Co..... ....414, 423
Rex v. Corp. Bedford 683
Rex v. Cudlipp 615
Rex v. Curghey 672
Rex v. East & W. I. Docks R. Co..... 780
Rex v Field 681
Rex v. Francis 611
Rex v. Gardner 492
Rex v. Ginever 423
Rex v. Grant 615
Rex v. Gray 659
Rex v. Grosvenor 652
Rex v. Gutch 435
Rex v. Haythorne 421
Rex v. Hill 313
Rex v. Hotsman of Newcastle 680
Rex v. Justice of Buckingham..... 537
Rex v. Justices of Yorkshire 684
Rex v. Langhorn 312
Rex v. Latham 615
Rex v. Liverpool 86
Rex v. London 454, 616, 681

PAGE.

Rex v. London Assurance Co.. 100
Rex v. March 679
Rex v. May 326
Rex v. Mayor 683
Rex v. Medley 716, 796
Rex v. Merchant Tailors Co ..509, 680, 686
Rex v. Miller 421
Rex v. Monday 325
Rex v. Morris 666, 779
Rex v. Norwich, etc 672
Rex v. Oxford 315
Rex v. Pasmore 652, 654, 667, 671
Rex v. Payne 615
Rex v. Pease 779
Rex v. St Katharine Dock Co..... 684
Rex v. Saunders 652
Rex v Slaverton 654
Rex v Spencer 413, 420
Rex v. Stacey 612, 615
Rex v. Surgeons Co 681
Rex v. Swem, etc., R. Co 687
Rex v. Trevener 615
Rex v. Water-Works Co 677, 687
Rex v. Westwood 30, 312, 412, 423, 426
Rex v. Wilts Canal Co..... 686
Rex v. Worcester Canal Co..... 684, 687
Rex v. York 681
Rexford v. Knight 605, 668
Reynolds v. Glasgow Academy 405
Rheem v. Naugatuck Wheel Co..... 506
Rhode v. Loutham 336
Rhodes v. Cleveland 717
Rhodes v. Salem, etc., R. Co..... 694
Rice v. Comm. Bk 618
Rice v. Courtis 92, 201
Rice v. Gove 282
Rice v. R. R. Co 339
Richard v. Warren 380
Richards v. Merrimack R. Co 387, 631
Richards v. New Hampshire Ins. Co... 242, 248
Richardson v. Burl., etc., R. Co..... 502
Richardson v. N. Y. Cent. R. Co.. 786, 789
Richardson v. St. Johns Ins. Co 410
Richardson v. St. Joseph's Iron Co.... 504
Richardson v. Scott, etc., R. Co..... 284
Richardson v. Sibley 215, 387
Richardson v. Vt. Cent. R. Co. 560, 780, 782
Richardson v. Williamson 241, 303
Richie v. Ashbury Co 390
Richland County v. Lawrence County. 41
Richmond & Painter's cases 143
Richmond v. Russell 735
Richmond Man. Co. v. Starks 293
Richmond, etc., R. Co. v. Louisiana R. Co..... ..... 39, 339, 552, 563
Richmond, etc., R. Co. v. Snead 386
Rickett v. Metrop. Ry..... 781
Riddell v. Harmony F. Ins. Co..... 88
Riddick v. Amelin 18
Riddle v. Locks, etc., Co..... ... 31, 659
Ridgway v. Farmers...216, 221, 273, 287, 418
Rigby v. Hewitt..... 462
Riggs v. Johnson County 685
Ring v. Johnson Co.. 407
Ripon v. Bittel..... 469
Risley v. Ind., etc., R. Co..227, 234, 238, 248, 289, 419, 431
Ritterband v. Baggett 415
Rivere v. Boston Copper Co 659
Rives v. Montgomery, etc., R. Co..... 443
Rives v. R. R. Co..... 134
Roach v. Coe 294
Road cases 426
Road v. Myers 407
Roberts v. Button 243, 245
Roberts v. Ohio, etc., R. Co..... 142
Robertson v. Conrey 113
Robertson v. Ryckford 554

PAGE.

Robinson v. Bealle 274
Robinson v. Chartered Bk. 188, 366
Robinson v. Lane 669
Robinson v. Nesbitt 92
Robinson v. N. Y. & E. R. Co. 782
Robinson v. Pitts., etc., R. Co.....121, 133
Robinson v. Smith 247, 523
Robson v. N. E. R. Co. 755
Rochester Bk. v. Gray 404
Rock Riv. Bk. v. Sherwood 370
Rockville & Wash. Turnp. v. Maxwell, 35, 148
Rockwell v. Elkhorn Bk. 386
Roehler v. Mechanics' Aid Soc.....82, 676
Rogers v. Hastings, etc., R. Co. 259
Rogers v. Huntington Bk. 429, 533
Rogers v. Kneeland 271, 293, 449
Rogers v. Saunders 526
Rollins v. Clay 567
Rollins v. Columbia Ins. Co. 423
Ronan v. Fry 113
Rome v. Cabot 335
Rome Bk. v. Rome 351
Rome R. Co. v. Rome 696
Rood v. N. Y. C. R. Co. 782
Root v. Wallace 424
Rorke v. Thomas 547
Rose v. Truax 307
Rose v. Turnp. Co. 656, 666
Rosenback v. Salt Spring Nat. Bk. 416
Rosenthal v. Madison, etc., R. Co. 25
Ross v. Crockett 323
Ross v. Estates Investment Co 133, 418
Ross v. Lafayette, etc., R. Co 142
Ross v. Lane 678
Ross v. Madison 337, 401
Ross v. Ross 532
Ross v. South-western R. Co. 91, 97
Rossmore v. Mowatt 558
Rothe v. Mil. R. Co 788
Rounds v. Del. & Lack. R. Co., 720, 722, 727
Rounds v. Smith 444
Roundtree v. McLain 526
Rouse v. Moore 4
Routh v. Thompson 449
Rowley v. Empire Ins. Co 288
Royal Bk. of India's case 230
Royal Bk. Liverpool v. Gr. Junc. R. 400, 405
Royal British Bk., In re. 433, 439
Royal British Bk. v. Turquand 379
Royalton v. Turnp. Co 247
Royston v. Royston 561
Roxbury v. Huston 506
Rubotton v. McClure 598
Ruby v. Abyssinian Soc. 484
Ruby v. Portland 71
Ruck v. Williams 452
Rudolph v. Covell 526
Ruggles v. Washington County 293
Ruhn v. McAllister 93
Rundle v. Del. & Raritan Canal Co. 6
Runkle v. Winemeler 680
Runyon v. Lessee, etc. 26
Russell v. Elliott 677
Russell v. McLellan 30, 656, 666
Rust v. Low 588
Rutland, etc., Co. v. Proctor 384
Rutland, etc., R. Co. v. Thrall 124, 152
Rutter v. Chapman 11
Ryan v. Dunlap 273
Ryan v. H. R. R. Co 738
Ryan v. N. Y. Cent. R. Co. 461
Ryder v. Alton, etc., R. Co.... 13, 147, 172, 190, 606

Sabin v. Vt. Cent. R. Co 781
Sabin v. Woodstock 201
Sacketts Harbor Bk. v. Lewis Co. Bk. 381
Sadler v. Langham 570, 572, 576

PAGE.

Safford v. Wyckoff 338, 378, 387
Sagory v. Duboise 131, 144, 146, 148
St. Andrew's Bay Land Co. v. Mitchell. 271, 410
St. Charles Nat. Bk. v. De Bernales 485
St. James' Church v. C. Redeemer 248
St. Jo. & D. C. R. Co. v. Chase 462
St. John v. Benedict 527
St. Johns v Erie R. Co 156
St. Joseph v. Rogers 351
St Louis v. Alexander 712
St. Louis v. Buffinger 423
St. Louis v. Ferry Co 705
St. Louis v. Kean 675
St. Louis v. Manufac. Sav. Bk. 43
St Louis v. Weber 68, 366, 414
St. Louis, etc., Ins. Co. v. Cohen. 486
St. Louis, etc., Ins. Co. v. Goodfellow. 104, 199, 430
St. Louis, etc., R. Co. v. Dalby 716
St. Louis, etc., R. Co. v. Manly 788
St. Louis, etc., R. Co. v. Montgomery. 783
St. Luke's Church v. Matthews 308, 414
St. Luke's Church v. Slack 685
St. Mary's Bk. v. St. John 242
St. Mary's Church, Re. 311, 318
St. Mary's Church v. Cagger 394
St. Paul v. Coulter 417, 421
St. Paul R. Co. v. Parcher 389
Sald v. New Orleans 43
Salem v. Richardson 303
Salem Bk. v. Caldwell 609
Salem Bk. v. Gloucester 221, 226, 237, 239, 287, 289, 295, 412, 418, 420, 425, 434, 450
Salem & H. T. pike Co. v. Lyme 58
Salem Iron Fac. v. Danvers 697
Salem Mill Dam Corp. v. Ropes 99, 118, 121, 136, 142, 305
Salem R. Co. v. Tipton 654
Salisbury Mills v. Townsend 100
Salmon v. Richardson 241
Salomons v Laing 225, 239, 516
Salt Co. v. East Saginaw 704
Saltmarsh v. Planters' Bk 667
Sampson v. Bowdoinham Steam Mill Corp. 313, 317
Samuel v. Halladay 315, 322, 417, 419, 431, 485, 501, 511, 515
Samuels v. Cent., etc., Exp. Co 415
San Antonio v Lane 353
San Buenaventura, etc., Man. Co. v. Vassault 211
Sanders v. Guardians of St. Neat's Union 404
Sandford v. Eighth Ave. R. Co.... 723, 763, 780, 795
San Diego v. San Diego, etc., R. Co.... 248
Sandilands, In re 400
Sandusky Bk. v. Wilbor 698
Sanford v. Worn 566
San Francisco v. Spring Valley Water Works 15
San Francisco R. Co. v Bee 248
San Francisco, etc., R. Co. v. Caldwell 571, 605
Sangamon & Morg. R. Co. v. County of Morgan 693
Santa Cruz R. Co. v. Schwartz 119
Sargent v. Essex Marine Ry. 92, 104, 187, 419
Sargent v. Franklin Ins. Co. 81, 96, 100, 103, 161, 164, 187, 197, 201, 429
Sargent v. Webster. 217, 255, 312, 315, 325
Sater v. Burlington, etc., R. Co 605
Savage v. Ball 182
Savage v. Medbury 543
Savage v. Rice 282
Savage v. Walshe 659
Savage Man. Co v. Armstrong 487
Savings Bk. v. Davis 271, 313, 317, 394

PAGE.

Savings Fund Soc. v. Phil. 41
Sawyer v. Hoag 669
Sawyer v. Methodist E. Church..... 325
Saxton v. Bacon 467
S. & B. R. Co. v. L. & N. W. R. Co. .. 634
Scaith v. Chadwick..... 521
Schackelford v. New Orleans R. Co.259, 304
Schaeffer v. Missouri, etc., Ins. Co..95, 115
171
Schenectady, etc., R. Co. v. Thatcher, 63
119
Schmidt v. Mil., etc., R. Co 792
Schoff v. Bloomfield..... 316
Scholey v. Cent., etc., R Co..... .411, 447
Scholfield v. Union Bk..... 96
School Comrs. v. Dean..... 27
School Dist. v. Blaisdell..... 506
School Dist. v. Thompson..... 355
School Dist. v. Wood 396
School Inspectors v. People..... 673
Schular v. Hudson R. Co 732
Schumm v. Seymour 323
Schuylkill Nav. Co. v. Thoburn 605
Scott v. Cent., etc., R. Co..... 157
Scott v. De Peyster..... 241, 248, 252
Scott v. Eagle Ins. Co.....155, 520
Scott v. Lord Hastings..... 92
Scott v. Johnson..... 285
Scott v. Scott 278
Scott v. Shepherd..... 462
Scotland County v. Missouri & N. R. Co 43
Scripture v. Francestown Soap-stone Co..... 97
Scudder v. Trenton, etc., Falls Co... . 569
Searl v. Lack., etc., R. Co.. 605
Sears v. Eastern R Co..... 775
Sears v. Hotchkiss. 243, 245, 514, 524
Searsburgh Turn. P. Co. v. Cutler. ... 504
Seaver v. Coburn 296
Secombe v. R. R. Co 574
Second Nat. Bk. v. Lavell.....318, 485
Sedgwick v. Stanton 307
Seger v. Barkhamstead..... 468
Seibrecht v. New Orleans... ... ...236, 335
Selby v. Levee Coms 691
Selma v. Tenn. R. Co. 132
Selma, etc., R. Co. v. Harbin... ...556, 558
Selma, etc., R. Co. v. Tipton. 117, 130, 145
147, 504
Seneca County Bk. v. Lamb.. 215, 398, 413
417, 419
Serrell v. Derbyshire, etc., R. Co...243, 245
Sessions v. Crunkilton..... 574
Seton v. Slade 279
Sewall v. Boston Water Power Co..... 105
Sewall v. Brainerd 353
Sewall v. Chamberlain..... 182
Sewall v. Lancaster Bk..... .....429, 533
Sewall's Falls Br. v. Fisk 671
Seymour v. Canada, etc., R. Co .. 388, 631
Seymour v. Chicago, etc., R. Co..... 753
Seymour v. Milford. etc., T. Co..... 529
Seymour v. Delancy 101, 526
Seymour v. Ely 675, 679
Seymour v. Greenwood.451, 457, 724, 726, 738
762, 764, 795
Seymour v. Hartford..... 699
Seymour v. Turnp. Co..... .....79, 528
Seymour v. Wyckoff 294
Shackleford v. Coffey..... 573
Shaler, etc., Co. v. Bliss..... ... 114
Sharp v. Mayor 436, 440, 457
Sharpe v. Bellis 235, 296
Sharpless v. Philadelphia..... .. 711
Sharrod v. London R. Co. 451
Shaughnessy v. Rens. Ins. Co.. 542
Shaver v Bear River, etc , Co..... 238
Shaver v. Ocean Mining Co.... 285

PAGE.

Shaw v. Boylan 71
Shaw v. Dennis 711
Shaw v. Norfolk, etc., R. Co..388, 522, 554
556
Shaw v. Nudd..... 396
Shaw v. Spencer 161, 175
Shawmut Bk. v. Plattsburgh, etc., R. Co..... 339
Shay v. Tuolumne Co. Water Co.... .. 107
Shea v. Sixth Ave R. Co..... ...724, 730
Sheffield, etc., R. Co. v. Woodcock.... 172
Shelbyville, etc., T. Co. v. Barnes..... 551
Sheldon v Fairfax.....395, 403
Sheldon Hat, etc., Co. v. Eickmeyer Hat, etc., Co 368
Shelling v. Farmer.. 509
Shelton v. Darling 283
Shepard v. Buffalo, etc., R. Co..... . 793
Shepherd v. Gillespie... 156
Shepley v. A & St. L. R. Co... ... 215, 387
Shepperd v. Midland Ry. Co 757
Sheridan v. Brooklyn, etc., R. Co..... 761
Sherley v. Billings..... 720, 762, 772, 795
Sherlock v. Winnetka 371
Sherman v. Fitch. 233, 411
Sherman v. N. Y. Cent. R. Co 295
Sherman v. Smith..... 113, 619
Sherman v. West Stage Co 480
Sherwin v. Bugbee.. 13
Sherwood v. American Bible Soc 66
Shewalter v. Pirner..... 256
Shield v. Edin. & Glasgow R. Co..... 735
Shields v. Ohio..... 554
Shipley v. Kymer 290
Shipman v. Ætna Ins. Co..... 166
Shitz v. Berks Co..... . 690
Shoe & Leather Bk. v. Brown 504
Shorter v Smith..... 563
Shortz v. Unangst 31
Shotwell v. Mali..... . ..... 207, 255
Shrewsbury v. Brown..... 482
Shrewsbury v. N Staffordshire R. Co.. 359
Shrewsbury, etc., R. Co. v. London, etc., R. Co 225, 339, 360, 527
Shropshire, etc., R. Co. v. Anderson .. 143
Shuetze v Bailey 336
Shurtz v. Schoolcraft, etc., R. Co 119
Sibley v. Carteret Club of Elizabeth... 89
Sicilies v. Wilcox..... .. 453
Sikes v Hatfield 260. 303
Silver Lake Bk. v. North. 381, 487, 623, 654
Silverthorne v. Warren R. Co. . 675, 678
Simmons v. New Bedford, V. & U. S. Co 774
Simonson v. Spencer... 112
Simpson v. Denison 516
Simpson v. Westminster, etc., R. Co. 513
Simrall v. Mut. Ins Co..... 30
Siner v. Gt. West. R. Co..... 758
Skelly v. Jefferson Branch Bk.. 698
Skinner v. Maxwell.. 543
Skowegan Bk. v. Cutler.. ... ... 191, 201
Slack v. Marysville, etc., R. R. Co.. 80, 711
Slater v. Rink 469
Slaughter v. Comm.... 691
Slawson v. Loring. 296, 298
Slaymaker v. Gettysburgh Bk. 185, 187, 189
Slee v. Bloom ... 114, 414, 530, 653, 659, 671
Sleeper v. Franklin Lyceum 90
Sleevant v. Anglo California Gold Mining Co..... 145
Slim v. Croucher 299
Sloan v. Pacific R. R. Co..... 47
Sloan v. State 40
Small v. Herkimer Manuf. Co..141, 146, 148
Small v. Owings 336
Smart v. West Ham Union..... 396
Smead v. Indianapolis, etc., Co.287, 355, 387
Smith, In re..... ....133, 191

PAGE.

Smith v. Alvord.....328, 347, 350
Smith v. American Coal Co.. 102
Smith v. Appleton. 652, 670
Smith v. Bangs.. 524
Smith v. Bank of Scotland..... 233
Smith v. Birmingham C. Co..... 458
Smith v. Birmingham Gas Co..... 431
Smith v Bromley..... 373
Smith v. Burley 697
Smith v. Cartwright 269
Smith v Cheshire 355
Smith v. Clark 352
Smith v. Comm..... 260, 304
Smith v. Congregatio'l Meeting House, 395
Smith v. Connelly 573
Smith v. Crescent City Co..... 91
Smith v. Eureka Flour Mills 66, 356
Smith v. Exeter 694
Smith v. Helmer..... 598
Smith v. Holcomb..... 469
Smith v. Hull Glass Co..... 290
Smith v. Hurd..... ....303, 513
Smith v. Indiana, etc., R. Co..... 152
Smith v. Lansing 255
Smith v. Law. 316, 343
Smith v. London & S. W. R. Co..... 462
Smith v. Miss R. Co..... 654
Smith v. Morse 356
Smith v. Natchez Co 666
Smith v. Northampton Bk. 273
Smith v. Overby 469
Smith v. Perry..... 337
Smith v. Plankroad Co.24, 116, 134, 136, 152, 654
Smith v. Poor..... 204, 303
Smith v. Prattville Manuf. Co.240, 243, 245
Smith v. Reese Riv. Co. 133, 441
Smith v Sac. Co..... 351
Smith v. State..... 628
Smith v. Tracy... 234
Smoot v. Rea 526
Smout v. Ilbery 299, 301
Smyth v. Darley 317, 322
Snow v Webber 194
Society, etc., v. Coite 711
Society, etc., v. New London.. 351
Soc. Visitation of Sick v. Com. 82, 87, 89
Somerby v. Buntin 93
Somerville, etc., R. Co. v. Doughty.... 606
South Baptist Soc. v. Clapp 392
South Bay, etc., Co. v. Gray.. ... 149, 482
Southampton Dock Co. v. Richards.... 142
Southampton & Itchin B. Co. v. Southampton 452
South Eastern R. Co. v. Hebblewhite . 143
Southern Life Ins. Co. v. Lanier.. 279, 375, 381
Southern Penn. Iron Co. v. Stevens... 140
Southern Plankroad Co. v. Hixon. 83, 89, 133, 139
Southern R. Co. v. Jackson 700
Southern R. Co. v. Kendrick..... 468, 760
South.nayd v. Russ 111, 113
South, etc., R. Co., Ex parte 675
South Western R. Co. v. Georgia..... 554
South Western R Co. v. Paulk.... 693, 762
South Western, etc.,R. Co.v.Thomason 154
Southwick v. Estes..... 795
South Yorkshire R. Co. v. Great N. R. Co 225
Soutter v. Madison 652, 670
Sower v. Philadelphia 425
Spangler v. Indiana, etc., R. Co . 150, 504
Sparenburgh v. Bannatyne..... 492
Sparhawk v. Union, etc., R. Co..... 525
Sparks v. Proprietors, etc 146
Sparrow v. Evansville, etc., R. Co 553
Sparta v. Lebanon, etc., Turnp. Co.... 145
Spaulding v. Chicago, etc., R. Co. 782, 783

PAGE.

Spaulding v. Lowell 69, 287, 355
Spear v. Blairsville..... 570
Spear v. Crawford... 112, 114, 131, 146, 148
Spear v. Grant.... 206, 214, 246, 515, 520, 538
Spear v. Hart..... 155
Spear v. Ladd 216, 232
Speer v. Atlantic, etc., R. Co 579
Spencer v. Field..... , ... 282
Spencer v. Ill. Cent. R. Co.... 786, 788, 790
Spering's appeal..... 240
Spooner v. Holmes... 353
Sprague v. Cacheco Manuf. Co..... .. 192
Sprague v. Gillette 271
Sprague v. Hartford, etc., R. Co 560
Sprague v. Ill. River R. Co..... 32, 143, 318
Spring v. Russell 501
Springfield v. Conn. R. Co.... 552, 563, 565
Springfield v. County Com'rs..... .. 681
Stacey v. Vermont Cent. R. Co . 578, 590, 594, 600
Stackpole v. Arnold.....282, 298, 306
Stainton v. Woolrych..... ... 780
Stamford Bk. v. Benedict..... 271, 273, 410
Stamford Bk. v. Ferris..... 531, 534
Stanley v. Chester & Birkenhead R. Co 305
Stanley v. Stanley 113
Stanton v. Wilson 180
Star v. Camden R. Co..... 566
Starin v. Genoa 713
Stark v. Burke 113
Stark Bk. v U. S. Pottery Co.....251, 387
Starkweather v. Bible Soc.... 373
State v. Accommodation Bk 44, 65
State v. Adams..... ....88, 224
State v. Ancker 417
State v. Armstrong..... 18
State v. Ashley. 611, 616, 619, 655
State v. Bailey... ... 215, 505, 551, 664, 669
State v. Baltimore, etc., R. Co.155, 159, 190
State v. Bk. Louisiana..... 221, 510
State v. Bk. of Maryland..... 388
State v. Binder 318
State v. Bonnell 212
State v. Bradford 650, 652
State v. Bridgman 675
State v. Brown 655
State v. Buchanan 613
State v. Burbank 655, 673, 675
State v. Burnett..... 655
State v. Canterbury..... 563
State v. Carney 678
State v. Centerville Br. Co... 654
State v. Cincinnati 652
State v. Clark 414
State v. Clarksville R. & T. Co.. 779
State v. Claypool 542
State v. Coll. & H. P. R. Co.... 657
State v. Commercial Bk... 226, 273, 289, 419, 431, 622, 649
State v. Com'rs..... 62
State v. Common Council..... 80, 676
State v. Conklin 413, 415, 520
State v. Conlin..... 713
State v. County Judge..... ... 678
State v. Curran.....63, 420, 650
State v. Davenport 714
State v. Dawson..... ... 30
State v. Delafield... 351
State v. Douglas 42
State v. Dubuclet..... 678
State v. Duffy..... 676
State v. Favell 653
State v. Ferguson.... ..... 312, 414, 417
State v. Ferris..... 95
State v. Fisher 655
State v. Fourth N. H. Turnp. Co.. 653, 670
State v. Franklin Bk..... 158, 189
State v. Freeman..... 414

PAGE.

State v. Georgia Med. Soc..... 84, 87
State v. Gleason..... 611, 619
State v. Goll..... 508, 685
State v. Grand Trunk R. Co..... 759
State v. Hartford, etc., R. Co 687
State v. Haskell..... 302
State v. Hood..... 695
State v. Hull..... 677
State v. Ill. Cent. R. Co..... 693
State v. Jersey City..... 425, 574
State v. Johnson..... 611, 619
State v. Justinian Soc 82
State v. Kirkley..... 302
State v. Krebs..... 39, 70
State v. Lehre..... 615, 626
State v. La Grange R. Co..... 520
State v. Lathrop..... 691
State v. Bk. Louisiana..... 418
State v. Lynah..... 675
State v. McCrillus..... 673
State v. McIver..... 191
State v. Maine Cent. R. Co..... 554
State v. Manchester, etc., R. Co 792
State v. Mansfield..... 695
State v. Marlow..... 615, 619
State v. Mayor of Mobile..... 556
State v. Mayor of Newark..... 41, 43
State v. Merchants' Ins. Co..... 653, 657
State v. Merry..... 611, 619
State v. Metz..... 560
State v. Miller..... 42
State v. Minton..... 696
State v. Miss., etc., R. Co..... 656
State v. Morris, etc., R. Co.... 395, 450, 796
State v. Morristown..... 414
State v. Morristown F. Ins. Asso 180
State v. New Orleans Gas L. Co... 652, 654
State v. Northern, etc., R. Co..... 388, 486, 560, 631, 680
State v. N. Eastern R. Co 676, 688
State v. Noyes..... 28, 44, 46, 566
State v. Ogden..... 694
State v. Parker..... 713
State v. Parrott..... 779
State v. Paterson, etc., T. Co.. 618, 625, 653
State v. Pawtucket T. Co 650
State v. Perrine 675, 678
State v. Person..... 42, 64
State v. Pindal..... 37
State v. Pinto City Clerk, etc 426
State v. Police Jury 678
State v. Powers..... 698
State v. Real Estate Bk 611, 619, 627
State v. Rives 530, 634, 658
State v. St. Louis County Court 41
State v. St. Louis Ins. Co 611, 619
State v. Saxton..... 676
State v. Schnierle..... 655
State v. Scott..... 779
State v. Shields 613
State v. Sibley 32
State v. Smith..... 191, 266
State v. Southern Minn. R. Co..... 42, 680
State v. Stebbins 356
State v. Stone..... 611, 619
State v. Taylor 615, 619
State v. Tolan..... 655
State v. Tombeckbee Bk..... 44
State v. Trustees, etc..... 668
State v. Tudor 82, 107, 616
State v. Tunis..... 696
State v. Union Merchants' Exchange.. 416
State v. Urbana Ins. Co 653, 657
State v. Vt. Cent. R. Co..... 716, 796
State v. Wadkins 615, 619
State v. Warmoth..... 675
State v. Warren County..... 691
State v. Warren, etc., Co..... 687
State v. Warren Foundry, etc., Co 191

PAGE.

State v. Washington Library... ... 69, 649
State v. West Wis. R. Co.... .... 611, 619
State v. Williamstown T. Co..... 779
State v. Wilmington Br. Co..... ...
State v. Wilson 649
State v. Zanesville, etc., Co..... .. 678
State Bk. v. Cape Fear Bk..... .... 44, 336
State Bk. v. Clark..... .. 80
State Bk. v. Comegys..... . . 233
State Bk. v. Gibbs 80
State Bk. v. Knoop..... .. 40, 696
State Bk. v. Nav. Co 41
State Bk. v. Orleans Nav. Co..... ... 356
State Bk. v. State 611, 616, 638
State Bk. v. Tutt 551
State Board Agriculture v. Cit. Street R. Co. 357, 381
State F. Ins. Co., In re 521
State Ins. Co. v. Sax..... 191
State Nat. Bk. v. Robadoux... 677
State Nicholson Pavem't Co. v. Mayor, 677
State Sav. Bk. v. Kellogg 108
Steam Nav. Co. v. Weed..... 381
Steamship Dock Co. v. Heron.. 91, 104, 200, 429
Stearns v. Midland Ry. Co 454
Stearns v. Old Col., etc., R. Co 793
Stebbins v. Jennings 28
Stebbins v. Merritt..... 312, 315
Stebbins v. Phœnix F. Ins. Co 104, 187, 188, 429
Steel v. S. Eastern R'y Co 735
Steele v. Oswego.. 402
Stein v. Mobile..... 711
Steiner's Appeal... 635
Stephen v. Smith 762
Stephenson v. N. Y R. Co 279
Stetson v. City Bk..... 664
Stetson v. Kempston 69, 287, 355
Stetson v. Patten 300
Stevens v. Buffalo, etc., R. Co..... 388, 434, 450, 530, 651, 716
Stevens v. Davison 247, 525
Stevens v. Eden Meeting-House Asso., 313
Stevens v. Middlesex Canal..... 569
Stevens v. Midland Ry. Co..... 456, 459
Stevens v. Norris 306
Stevens v. Rutland, etc., R. Co.... 143, 204
Stevens v. South, etc., R. Co..... 516, 525
Stevens v. Watson..... 388
Stevenson v. Buxton 527
Steward v. Huntingdon Bk 279
Stewart v. Austin..... 241
Stewart v. Jones 528, 532
Stewart v. Say..... 108
Stiles v. Cardiff Steam Nav. Co 452
Stimson v. N. Y. C. R. Co... 762
Stockton v Frye 469
Stockton Iron Co., In re..... 197
Stockton, etc., R. Co. v. Stockton 574
Stoddard v. Gilman 426
Stoddard v. Shetucket 159
Stokes v. Eastern Counties R. Co 741
Stokes v. Lebanon, etc., R. Co .. 115, 148
Stokes v. Scott County. 712
Stone v. Berkshire Congregat'l Soc.,.. 395
Stone v. Hockett 188
Stone v. Wetmore 655
Stoneham Branch R. Co. v. Gould..... 119
Stoney v. American L. Ins, Co .....
Stoops v. Greensburgh P. R. Co... 504, 671
Storey v. Ashton 724
Story v. Livingston 508
Stow v. Wyse..... .... 313, 317, 417
Stout v. Sioux City, etc., R. Co 791
Stogstown, etc., T. Co. v. Craver..... 323
Stratton v. Allen..... ..... 255, 343
Strauss v. Eagle Ins. Co... 60, 335, 342, 356
Strauss v. Pontiac 416

PAGE.

Strawbridge v. Turner 467
Strickland v. Prichard..... 659
Strong's case..... 676
Strong v. Smith..... 99
Strong v. Wheaton 138
Stuart v. London R. Co..... 239
Sturges v. Bk. Circleville..... 274
Sturges v. Board of Trade..... 79
Sturges v. Knapp..... 522
Sturges v. Stetson 35, 183, 247
Sturtevant v. Alton 335, 402
Sturtevant v. Jacques 174
Sturtevant v. Liberty..... 355
Stuyvesant v. Mayor 420
Sudbury v. Stearns..... 676
Sullivan v. La Crosse, etc., Packet Co.. 486
Sullivan v. Union P. R. Co. 479
Sum v. Robertson 664
Sumner v. Marcy..... 358, 387
Supervisors v. Durant 685
Supervisors v. Mississippi R. Co..... 141
Supervisors v. U. S 714
Sus. Bridge Co. v. Gen'l Ins. Co.. 387, 631
Sus. Canal Co. v. Wright.. ... 387, 529, 598
Sutton v. Cole..... 293
Sutton's Hospital Case..... 4, 27, 392, 412
Suydam v. Morris Canal, etc..... 381
Suydam v. Moore 649
Suydam v. Receivers 544
Suydam v. Williamson. 685
Swan v. Gray 675
Swan v. North British, etc., Co... 106, 679
Swan v. Williams 569, 571
Swansea Dock Co. v. Levien 142
Swartwout v. Mich., etc., R. Co..... 35
Swift v. Winterbotham 441
Switzerland Bk. v Turkey Bk..... 658
Sweeney v. Old Col. R. Co..... 788, 789
Sweetzer v. Mead. 283
Sword v. Cameron.. 731
S. Y. R. Co. v. Great N. R. Co 264
Syke's Case..... 241
Symonds v. Carter.. 476

Taber v. Cincinnati, etc., R Co..... 387
Tabor v. Mo. Vall. R. Co 789
Taft v. Hartford, etc., R. Co..... 178
Taft v. Pittsford 302, 355
Taggart v. West Maryland R. Co... 46, 180
Tailors of Ipswich v. Sherring. ... 414, 652
Taintor v. Pendergrast..... 283
Talbot v. Dent 711
Talbot v. Hudson..... 570, 577
Talladega Ins. Co. v. Landers.. 29, 32, 68
Talladega Ins. Co. v. McCullough..... 502
Tallman v. Syracuse, etc., R. Co 793
Talmadge v. Fishkill Iron Co. 242
Talmage v. Pell 542
Tarbell v. Page..... 113
Tar Riv. Nav. Co. v. Neal.....145, 504
Tarver v. Comrs. Court 677
Tattan v. G. Western R. Co.....451, 458
Taunton Turnpike Co. v. Whiting 142
Taylor v. Ashton 437
Taylor v. Boston W. P. Co.....716, 793
Taylor v. Burlington C. R. R. & M. Co. 646
Taylor v. Carondelet 423
Taylor v. Chichester, etc., R. Co..... 359
Taylor v. Fletcher..... 122
Taylor v. Franklin Ins. Co..... 657
Taylor v. Grand Trunk R. Co..... 781
Taylor v. Griswold ...30, 107, 313, 413, 421
Taylor v. Jenkins 531
Taylor v. Miami Export. Co..... 217
Taylor v. Midland Ry. Co..... 105
Taylor v. Newberne..... .....30, 37, 712
Taylor v. Porter..... .....449, 561, 577
Taylor v. Ry. Co. 474
Taylor v. Robinson 239, 292

PAGE.

Taylor v. Shelton 300
Teaton v. Lynn..... 505
Telfer v. Northern R. Co..... 480
Ten Eyck v. Del., etc., Canal Co..6, 41, 566
Tenn. Bk. v. Dibrell 79
Tenney v. East. Warren Lumber Co. . 266
405, 411
Terre Haute Gas Co v. Teel....458, 716, 796
Terre Haute, etc., R. Co. v. Earp..... 141
Terre Haute, etc., R Co. v. McKinley. 781
Terre Haute, etc., R. Co. v. Vanatta .. 763
Terrett v. Taylor..... .20, 649, 654
Terril v. Flower. 293
Thatcher v. Bank.....26, 275, 434, 450, 717
Thayer v. Boston..... .....431, 716
Thayer v. Daniels 92
Thayer v. Middlesex Ins. Co .. 37, 308, 410
Thigpen v. Miss., etc., R. Co..... 413
Thomas v. Armstrong..... 528
Thomas v. Dickenson..... 389
Thomas v. Richmond..... .....286, 302, 355
Thompson v. Abbott..... 555
Thompson v. Bell..... 434, 450
Thompson v. Candor 32, 35, 256, 559
Thompson v. Davenport 296
Thompson v. Erie, etc., R. Co.....156, 179
Thompson v. Grand Gulf R. Co....598, 605
Thompson v. Guion 140
Thompson v. Lambert.. 357
Thompson v. New Orleans & Carrolton Co.. 717
Thompson v. N. W. R. Co... 459
Thompson v. N. Y. R. Co..... 654
Thompson v. Tioga R. Co..... 285, 297
Thompson v. Waters 348, 485
Thompson v. Young..... 232, 281
Thomson v. Lee Co....80, 351, 353, 652, 712
Thomson v. Pac. R. Co. 14
Thornburgh v. Newcastle, etc., R. Co. 133
136
Thornton v. Marginal Freight Rwy ... 42
Thorpe v. Hughes..... 133
Thorpe v. Rutland, etc., R. Co.....690, 712
Thrasher v. Pike, etc., R. Co..... 98
Thurston v. Hancock..... 609
Tibbets v. Knox & Lincoln R. Co..... 734
Ticonic Water Power Co. v. Lang..... 121
Tide Water Canal Co. v. Coster....552, 570
Tidrick v. Rice..... 294
Tilden v. Metcalf..... 482
Tilley v. Hudson R. R. Co..... 480
Tilliter v. Phippard..... 724
Tilson v. Warwick Gas Co..... 306
Timms v. Williams..... 483
Tingley v. Providence..... 605
Tinkham v. Borst 664, 669
Tinsman v. Belvidere, etc., R. Co....6, 41
Tippets v. Walker.....141, 181, 184, 532
Tisdale v. Harris..... 93
Titcomb v. Union Ins. Co.....531, 533
Titus v. Ginheimer..... 638
Titus v. Kyle..... 298
Titus v. Mabee 523, 638
Tobey v. County of Bristol..... 526
Tobin v. Portland, etc., R. Co.... 752, 753
Todd v. Austin..... 571
Todhunter v. Walters..... 112
Toledo, etc., R. Co. v. Opperson...741, 751
Toledo, etc., R. Co. v. Baddeley... 469, 757
Toledo, etc., R. Co. v. Goddard....786, 788
Toledo, etc., R. Co v. Riley 791
Tombigbee, etc., R. Co. v. Kneeland. 487
Tomlinson v. Branch..... .. ... 65, 554
Tomlinson v. Jessup 65
Tonica, etc , R. Co. v. McNeely....131, 305
Toomey v. London, etc., R. Co..... ... 752
Topping v. Bickford... . ..... 36, 410
Towar v. Hale 671
Town v. Bk. of Riv. Raisin..... ... 659

PAGE.

Town v. Cheshire, etc., R. Co. 793
Tower v. Providence, etc., R. Co. 793
Towle v. Stevenson. 295
Townsend v. Brown. 339
Townsend v. N. Y. Cent. R. Co. 474
Tracy v. N. Y. C. R. Co. 793
Tracy v. Talmage. 279, 375, 381
Tracy v. Yates. 118
Traders' Bk. v. Thomas. 699
Trask v. Maguire 698
Treadwell v. Salisbury Man. Co. 215, 660
Trott v. Warren. 233
Trow v. Vt. Cent. R. Co. 793
Troy v. Mut. Bk. 690
Troy, etc., R. Co. v. Kerr, 145, 147, 215, 311, 387, 634
Troy, etc., R. Co. v. Newton. 117, 119
Troy, etc., R. Co. v. Tibbits. 127, 132, 147
Troy T. & R. Co. v. McChesney, 146, 153, 233, 274
Trumbull v. Mut. F. Ins. Co. 115
Trustees v. Cherry 286
Trustees, etc., v. Flint. 71, 427
Trustees v. Indiana. 44
Trustees v. Parks 27
Trustees v. Peaslee. 25, 69, 338
Trustees v. Reneau. 26
Trustees v. State. 673
Trundy v. Farrar. 410
Tuberville v. Stamp. 724
Tucker v. Rex. 312
Tucker v. Woolsey. 730
Tucker Manuf. Co. v. Fairbanks. 296, 298
Turner v. Clay. 527
Turner v. G. W. R. Co. 776
Turner v. North Beach R. Co. 473
Turquand v. Marshall. 243, 245
Turnpike Co. v. Imlay. 145
Turnpike Co. v. McKean. 116
Turnpike Co. v. Phillips 132
Turnp. Co. v. State. 652
Tuttle v. Walton. 104
Tyler v. Beacher. 570, 576
Tyrrell v. Bk. London. 139
Tyrrell v. Washburn. 114
Tyson v. Watts. 527

Underhill v. Trustees. 354
Underhill v. Newport Lyceum. 458, 717
Union Bk. v. Jacobs. 386, 395
Union Bk. v. Knapp. 345, 509
Union Bk. v. Laird. 91, 96, 104, 198, 429
Union Bk. v. McDonough. 443, 450
Union Bk. v. State. 104, 189, 695
Union Branch R. Co. v. East Town R. Co. 505
Union Bridge Co. v. Troy, etc., R. Co., 578
Union Co. v. Bordelon. 691
Union Hotel Co. v. Hersee 128
Union Improvement Co. v. Comm. 64
Union Ins. Co. v. Keys. 338
Union Locks & Canals v. Towne. 115, 140, 143
Union Mining Co. v. Rocky Mt. Nat. Bk. 336, 343
Union Mut. Ins. Co. v. Osgood. 504
Union Mut. Ins. Co. v. Wilkinson. 289
Union Pac. R. Co., Re 252
Union Pac., etc., R. Co. v. Lincoln County. 366, 523
Union, etc., R. Co. v. East Tenn. R. Co. 560
Union Springs Co. v. Jenkins. 337
United Soc. v. Underwood. 243, 245, 247
U. S. v. Amedy. 10, 340
U. S. v. Bank of Columbus 277
U. S. v. Brown 304
U. S. v. Columbian Ins. Co. 99
U. S. v. County Co. 676

PAGE.

U. S. v. Devaux. 492
U. S. v. Hart. 413, 421
U. S. v. Haskins. 504
U. S. v. Kirkpatrick. 230
U. S. v. Keokuk. 675, 685
U. S. v. New Orleans, etc., R. Co. 388, 639
U. S. v. Owen. 373
U. S. v. Van Zandt. 230
U. S. v. Vaughn. 103, 187
U. S. Bank v. Dallam. 113
U. S. Bank v. Dandridge. 29, 219, 232, 270, 274, 401, 403, 407, 410
U. S. Bank v. Dunn. 274, 277
U. S. Bank v. Stearns. 506
U. S. Trust Co. v. Brady. 13, 15, 371
University of Md. v. Williams. 652, 654, 659
Univ. of Vermont, etc., v. Baxter. 555
Updegraff v. Evans. 615, 619
Upton v. Hansbrough. 443, 447
Upton v. Trebilcock. 137
Utica v. Churchill. 158
Utica Bk. v. Hillard. 509
Utica Bk. v. Magher. 286
Utica Bk. v. Smalley. 96, 154, 429, 504
Utica Bk. v. Smedes. 69
Utica Ins. Co. v. Bloodgood. 257, 308
Utica Ins. Co. v. Scott. 69

Van Allen v. Vanderpool. 272
Vance v. Erie R. R. Co. 452, 458
Vance v. Farmers' Bk. 18
Vandall v. South San Francisco Dock Co. 68, 358
Vandenburgh v. Truax. 462
Vanderbilt v. Garrison. 204
Vanderpool v. Husson. 737
Van Doren v. Robinson. 522
Van Hook v. Somerville Man. Co. 255
Van Hook v. Whitlock. 114
Van Sandan v. Moore. 7, 22
Vansands v. Middlesex Co. Bk. 91, 96, 104
Van Schaick v. Hudson R. Co. 789
Van Wickle v. Cam. & Amboy R. Co. 574
Vrick v. Smith. 561, 577
Varnell v. Thompson. 96
Vawter v. Ohio, etc., R. Co. 122, 136, 443
Vermont v. Boston, etc., R. Co. 624
Vermont Cent. R. Co. v. Clayes. 117, 305
Vermont, etc., R. Co. v. Vermont C. R. Co. 654
Vernon Soc. v. Hills. 256, 654
Verplanck v. Mercantile Ins. Co. 253, 653
Vicksburgh Co. v. Ouchita. 508
Vicksburgh R. R. v. McKean, 116, 118, 135, 443, 474
Vincennes University v. Indiana. 19, 668
Vincent v. Nantucket. 287, 355
Virginia City v. Mining Co. 13
Virginia, etc., S. Nav. Co. v. U. S. 26
Vogle v. New Granada Canal, etc., Co of N. Y. 486
Von Hoffman v. Quincy. 670, 714
Von Schmidt v. Huntington. 93, 660
Vose v. Grant. 206, 244, 246, 520, 538

Wade v. American Colonization Soc. 371
Wade v. Leroy. 468
Wadleigh v. Gilman. 414
Wadsworth v. Manning. 526
Wait v. Ferguson. 114
Waite v. Mining Co. 266, 274, 278
Wakeman v. Dalley. 241
Waldo v. Chic., etc., R. Co. 135, 413
Wales v. Stetson. 44, 649
Walker v. Bk. N. Y. 285, 300
Walker v. Cincinnati. 715
Walker v. Devereaux. 118, 130, 331, 515
Walker v. Fleming. 256
Walker v. Kentucky Bk. 303, 403

PAGE.
Walker v. London & Blacknall Ry. Co. 683
Walker v. Mobile, etc , R. Co., 134, 136, 293
Walker v. Sherman 640
Walker v. South-east. Ry. Co..... 723
Walker v. Taylor 175
Walker v. Warren 474
Walkley v. Muscatine 675
Wallace v. Mayor 474
Wallace v. San Jose 302
Wallingford Manf. Co. v. Fox 305
Walsh v. Sexton 176
Walter v. Belding 676
Waltham Bk v. Waltham..... 184, 189
Walworth v. Brackett..... 35
Walworth Co. Bk. v. Farmers' L. & T. Co.. 239
Wanstall v. Pooley 795
Ward v. Arredondo. 495
Ward v. Griswoldville M. Co..... 147, 538
Ward v. Sea Ins. Co 653, 657
Ward v Soc. of Attorneys 526, 658
Warden v. Eichbaum. 294
Warden, etc., v. Hart 20
Ware v. Barataria Canal Co..... 443, 450
Ware v. Grand, etc., R. Co 525
Ware v. Regents Canal Co..... 781
Waring v. Catawba 203
Warner v. Daniels 34
Warner v. Mower. 312, 316, 388, 392, 417
Warner v. N Y. C. R. Co. 786, 788, 792
Warner Academy v. Starrett..... 483
Warren v. Lynch 392
Warren v. Ocean Ins Co..... ..233, 274, 410
Warren Bk v. Suffolk Bk..... 346
Warren Man. Co v. Etna Ins. Co..... 488
Washington Bk. v. Lewis 279
Washington, etc., Soc. v Bacher....86, 88
Washington College v. Duke..... 505
Washington Co Bk. v. Lee. 37
Washington F. Ins Co. v. Davidson.. 289
Wash. Univ. v. Rouse.. 699
Wash. & B T. R. v. Maryland 652
Wash., etc., R. v. State 650
Waterbury v. Clark 484
Waterbury v. Express Co..... 82
Waterbury v. Merchants' Union Ex. Bk. 535
Waterford, etc., Turn. Co. v. People. 796
Waterhouse v. Jamieson 133
Waterman v. Conn. & Pass. R. R. Co... 782
Waterman v. Troy, etc., R. Co..... 158
Waters v. Leech. 414
Waters v. Howard..... 526
Watervliet Bk. v. White..... 285
Water W. Co. v. Burkhart..... 570
Watkins v. Cheek..... 173
Watkins v Eames 180
Watkins v. G. Northern Ry 607
Watkins v. Holman 507
Watkins v. Walker Co..... 564
Watson v. Bennett..... 395, 458
Watson v. Harlem Nav. Co. 524
Watson v. Pittsburgh, etc., R. Co..... 605
Wausaw Broom Co. v. Plumer..... 484
Wayman v. Southard... 685
Weaver v. Barden... .....161, 189
Webb v Browning..... 336
Webb v. Graniteville Manuf. Co..... 194
Webb v. Manchester, etc., R. Co..... 590
Webb v. Moler..... 654
Webb v. Ridgely..... 100, 331
Webb v. Rome, W., etc., R. Co..... 783
Weber v. Lee County..... 685
Webster v. Upton..... 191
Weckler v. First Nat. Bk.... .. 68, 344, 358
Weed v. Chase..... 446
Weed v. Panama R Co.719, 762, 764, 772, 776, 795
Weeden v. Town Council..... 671
Weeks v. Propert..... .....241, 303

PAGE.
Weir v. St Paul R. Co.. 571
Weisenberg v. Appleton 469
Welch v. Durand 474
Welch v. Hoover 336
Welch v. Ste. Genevieve 669
Welland R. Co. v. Blake..... 142
Wells v. Canton Co..... 637, 645
Wells v. Gates 10, 12, 256
Wells v. Somerset, etc., R. Co. 564
Wells v. Stackhouse 675
Wert v Crawfordsville, etc , R. Co.133, 135
West v. Blake..... 569
West v. Forrest 467
West v. Madison Co Ag. Board.....68, 358
West v. N. J., etc., R. Co 787
West Branch Bk. v. Armstrong 534
Westbrook v. North 601
Western Bk. Scot. v. Addie.. 440, 447, 458
Western Bk. Scotland v Bairds .. 243, 245
Western, etc., R. Co. v. Avery 144
Western, etc., R. Co. v. Babcock 526
Western, etc., R. Co. v Johnston.528, 532
Western, etc., R. Co. v. Nolan.. 513, 522
Western Sav. Bk v. Phila 670
Western, etc., Soc. v. Phila 282, 337
Western Union Tel. Co. v. Mayer..... 347
West India Docks, etc., v. Gattke . . 607
Westoby v. Day..... 92
Weston v. Bear River, etc., Mining Co. 200, 201
Weston v. Charleston..... 699, 708
Weston v. Hunt 5
Weston Bk. v Gilstrap.. 232
West Phila. Canal Co. v. Innes. . 171, 173
West Riv. Bridge v. Dix.. 552, 563, 566, 569, 690
West Vir. Transp. Co. v. Volcanic Oil, etc., Co 574
West Wisconsin R. Co. v. Sup., etc..... 62
Wetumpka, etc., R. Co. v. Bingham... 32
Weyant v. N. Y & Harlem R. Co..... 733
Weymire v. Wolf 791
Weymouth v. Wash. R. Co..... 347
Whatman v. Pearson..... 732
Wheaton v. N. Beach R. Co..... 469
Wheeler, In re 222
Wheeler v Nevins..... 336
Wheeless v. Sec. Nat. Bk..... 452
Wheelock v. Boston, etc., R. Co..... 788
Wheelock v. Moulton..... 189, 484, 654
Wheelock v. Young..... 564
Whelpley v Erie R. Co. 525
Whitaker v. Hartford, etc., R. Co.... 353
Whitcomb v. Vt., etc., R. Co..... 607
White v. Campbell. 667
White v. Derby Fishing Co 239, 365
White v. Franklin Bk..... 279, 375
White v. Haight..... 542
White v. Lester. 68
White v. Madison..... 299
White v. Mayor, etc 414
White v. New Orleans 338
White v. Schuyler 101
White v. Skinner 300
White v. Syracuse, etc., R. Co..... 62, 713
White v. Tallman..... 417
White v. Vermont, etc., R. Co..... 351
White v. Westport Cotton Man. Co.... 239, 403
White's Bk. v. Toledo Ins. Co 66, 356
Whitehead v. Tuckett..... 278
Whiteman v. R. Co 433, 458, 717
White Mountain R. Co. v. Cooke 121
White Mountain R. Co. v. Eastman.... 133, 147, 218
Whitesell v. Northampton Co..... 695
White Riv. Turup. Co v. Vermont Cent. R. Co..... ..552, 565, 569
Whitewater & C. Co. v. Valette 388

PAGE.

Whitewell Bond & Co. v. Warner..418, 420
Whitfield v. S. E. R. Co...434, 452, 455, 458
716, 796
Whitford v. Panama R. Co.. 479
Whiting v. Sheboygan R. Co..... 718
Whitman Mining Co. v. Baker..66, 356, 373
Whitney Arms Co. v. Barlow..... 357, 391
Whittaker v. Man. & S. R. Co..... 758
Whittington v. Farmers' Bk.. 506
Whitwell v. Warner.....217, 221, 239, 255
Wickle v. Ry Co..... 594
Wickler v. First Nat. Bk..... 335
Wier v. Bush 666
Wiggins v. Freerville Baptist Church.. 313
Wight v. Shelby, etc., R. Co....107, 116, 118
134, 443
Wilbur v Glen Iron Works..... 144
Wilcox, Ex parte. 325, 413
Wilcox v. Rome, etc., R. Co..... 788
Wild v. Bk. Passamaquoddy.. 227, 233, 273
289, 431
Wildman v. Wildman 184
Wilds v. N. Y. C., etc., R. Co. ... 788, 790
Willamette Freighting Co. v. Stamus.. 142
375
Willard v. Newburyport..... 69, 272
Willcocks, Ex parte.. .. .. 96, 319
William's case 545
Williams v. Augusta 413
Williams v. Babcock..... 543
Williams v. Bk. of Ill..... .....612, 671
Williams v. Bk. of Michigan..... 12
Williams v. Beaumont... 483
Williams v. Cheney 36, 278
Williams v. Chester R. Co..... 281
Williams v. Christian Female College.. 316
Williams v. College, etc., R. Co..... 177
Williams v. Creswell..... 348
Williams v. Detroit 691
Williams v. Great W. R. Co.... 421
Williams v. Gregg 241
Williams v. Lunenburgh..... ... 318
Williams v. Mechanics' Bk..... .. 191
Williams v. Planters' Ins. Co..... . .. 453
Williams v. St. George's Harbor Co.... 233
Williams v. School Dist... 571
Williams v. Walbridge... 277
Williamsburgh Ins. Co. v. Frothing-
ham 36
Williamson v. New Albany, etc., R. Co. 388
631
Williamson v. N. J., etc., R. Co....388, 522
Williamson v. Smoot 487, 532
Williamson v. Wadsworth. 114
Willing v. Morris Canal Co. 631
Willinks v. Hollingsworth.... 293
Willis v. Long I R. Co..... 761
Willis v. Murray. 312
Williston v. M. S. & N. J. R. Co ... 178
Wilmington, etc., R Co. v. Reid 700
Wilmington, etc., R Co. v. Saunders.. 37
Wilmington, etc., R. Co. v. Stauffer .. 605
Wilmot v. Mayor, etc., Coventry 267
Wilson v. Blackbird Creek Marsh Co.. 576
Wilson v. Cent. Br. Co..... 660
Wilson v. Marsh Co. 569
Wilson v. Meiers 214, 299
Wilson v. Peverly 795
Wilson v. Poulter..... 449
Wilson v. Prop. of Cent. Bridge ... 98, 660
Wilson v. Tesson 651
Wilson v. Tumman 293
Wilson v. Williams 277
Wilson v. Wills Valley R. Co..... 152
Wiltbank's Appeal..... .. .. 154, 157, 160
Winch v. Birkenhead Lancashire &
Cheshire Junc. R. R. Co 634
Winchester T. Co. v Vimont..215, 387, 638
Winfield v. Hudson 251

PAGE.

Winn v. Macon 713
Winona, etc., R. Co. v. Waldron 605
Winsmore v. Greenbank 482
Winsor, Ex parte..... ... 131, 149, 248, 423
Winter v. Baker..... ... ...205, 242
Winter v. Belmont Mining Co..... 91
Winter v. Muscogee R. Co 66, 143, 356
Winterbottom v. Wright.. 435
Winters v Hannibal, etc , R. Co 468
Wiswall v. Greenville, etc., Plankroad. 356
Witherhead v Allen..... ....
Withers v. No. Kent. R. Co..... 739
Withington v. Herring 271
Wolcott Woolen Man. Co. v. Upham.. 573
Wolf v. Goddard..... 410
Wood v. Belford, etc., R. Co 215
Wood v. Coosa, etc., R. Co 116
Wood v. Draper. .. 12
Wood v. Dummer..206, 244, 515, 520, 538, 664
Wood v. McCann..... 239, 292, 307
Wood v. Pearce..... 521
Wood v. Tate 401
Wood v. Turnp. Co..... 528
Wood Hydraulic, etc., Co. v. King. 26, 328
346, 350
Woodbury v. Larned 294
Woodhouse v. Commonwealth Ins. Co. 140
Woodman v. York, etc., R. Co... 400, 405
Woodruff a. Attor -Gen..... 28
Woodruff v. Trapnall..... 670
Woodstock v. Gallup... .... 578, 682
Woods v. People's Nat. Bk.. 390
Wookey v. Pole 352
Wooley v. Idle 417
Woolsey v. Dodge 696
Worcester v. N. & W. R. R. Co 42
Worcester Medical Inst. v. Harding... 36
Worcester, etc , R. Co. v. Hinds..... 119
Worcester T. Co v. Willard..... 141, 270
Wormley v. Wormley..... 495
Worrell v. Judson..... 114
Worrell v. Munn 274
Worster v Forty-second St. R. Co ... 782
Worth, Ex parte 437
Wreford v. People 416
Wright v. Boyd..... 285
Wright v. Bunday.. .... 331, 350
Wright v. Carter 339, 356
Wright v. Oroville M Co 514
Wright v. Shelby R. R. Co..... 37
Wyman v. Hallwell Bk. 226, 419

Yarborough v. Bank of England.. 401, 433
454, 458
Yarmouth v. N. Yarmouth.....27, 41, 649
Yates v. Squires 795
Yeatman v. Crandall..... 691
Yeaton v. Bk. Old Dominion 62, 64
Yellow Jacket M. Co. v. Stevenson, 238, 323
York, etc., R. Co., In re. 388
York, etc., R. Co v. Hudson..... 252
York, etc., R. Co. v. Pratt.. 153
York, etc., R. Co. v. Regina..... 29, 604
York, etc., R. Co. v. Ritchie . 142, 148, 153
York, etc., R. Co. v. Winans 215, 387
Young v. Bk. Alexandria..... 507
Young v. Daniels 526
Young v. Harrison..... 42, 566, 649, 654, 671
Young v. N. Y., etc., Steam S. Co 114
Youngman v. Alexandria R. Co 528

Zabriskie v. Cleveland, etc , R. Co. 30, 202
225, 282, 375, 381, 516
Zabriskie v. Hackensack, etc., R Co . 42
63, 143, 223, 516, 553, 660
Zemp v. Wilmington, etc., R. Co. 761
Zimmer v. State 554
Zion Church v. St. Peter's Church . .. 504
Zoltman v. San Francisco 380

PRIVATE CORPORATIONS.

CHAPTER I.

WHAT ARE — ORIGIN AND HISTORY OF.

SEC. 1. What are corporations, and kinds of.
SEC. 2. Various kinds of corporations.
SEC. 3. Distinction between public and private corporations.
SEC. 4. Quasi corporations.
SEC. 5. Origin and early history of private corporations.

SECTION 1. **What are corporations, and kinds of.** — A corporation is an artificial person, created by, and deriving all its powers from, the law, and, within the scope of the express or implied authority conferred upon it by the law creating it, possesses all the powers and functions of a natural person. It is composed of one or more persons constituting, under a particular name, one artificial person, without a soul, but enjoying the capacity of a continuous succession, and of perpetual existence and identity, unless its duration is limited by the law creating it, or its powers are taken away by statute or the judgment of a competent tribunal, upon proper proceedings to that end.

Like a natural person it may, unless restrained by law, in its corporate name, purchase, take, hold and convey real or personal property, make contracts, employ agents, and prosecute the business for the prosecution of which it was organized, and sue or be sued, either in courts of law or equity. It may be said to be *a collection of persons, united by law into one body, and endowed*

with the capacity of a single person within the scope of the express or implied powers with which it is endowed.

It is a political or civil institution, composed of one or more persons, legally organized with a particular name, and constituting, in law, but a single person, and having an identity, and a legal existence and liability entirely separate and distinct from that of the members of which it is composed. Indeed, the principal object and purpose of private corporations is to enable many persons to concentrate their capital in the prosecution of a particular business, without incurring the personal risks or liabilities incident to the prosecution of business by an individual in his own name, or of an aggregation of individuals under a firm name; and to accomplish this result a corporation has a legal identity and liability, entirely distinct from and independent of the persons or other corporations of which it is composed.

An American author of fair reputation accurately describes a corporation as being "a legal institution devised to confer upon individuals of which it is composed, powers, privileges and immunities which they would not otherwise possess; the most important of which are continuous legal identity and perpetual or indefinite succession under the corporate name, notwithstanding successive changes, by death or otherwise, in the corporators or members of the corporation." [1]

Mr. KYD defines a corporation as being a collection of many individuals united in one body, under a special denomination; having perpetual succession under an artificial form, and vested by the policy of the law with a capacity of acting in several respects as an individual; particularly, of taking and granting property, contracting obligations, and of suing and being sued; of enjoying privileges and immunities in common, and of exercising a variety of political rights more or less extensive according to the design of its institution or the powers conferred upon it, either at the time of its creation or at any subsequent period of its existence." [2]

[1] 1 Dill. on Mun. Corp., § 8; 1 Brown's Civ. L. 141; 2 Kent's Com. 267.

[2] 1 Kyd on Corp. 13. In a recent case, the supreme court of the United States has intimated, that the earlier definitions of a corporation were not satisfactory; and that a company organized in England, under an act of parliament, with the incidents of a corporation, may in this country be treated as such, though it is expressly provided by the act, that such companies should not be so considered. Liverpool Ins. Co. v. Massachusetts, 10 Wall. (U. S.) 566.

Chief-Justice Marshall, in a leading case upon this branch of the law,[1] says:—

"A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being a mere creature of the law, it possesses only those properties which the charter of its creation confers upon it, either expressly, or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it is created. Among the most important are immortality, and, if the expression may be allowed, individuality; properties by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to manage its own affairs, and to hold property, without the perplexing intricacies — the hazardous and endless necessity of perpetual conveyances, for the purposes of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men in succession with these qualities and capacities, that corporations were invented, and are in use. By these means a perpetual succession of individuals is capable of acting for the promotion of the particular object, like one immortal being."

Sec. 2. **Various kinds of corporations.**— The definitions and descriptions we have given apply to corporations generally; but there are various kinds of corporations created for different and specific purposes, the franchises and powers of which are limited to the specific purposes for which they were created. Thus they are divided into sole and aggregate. *A sole corporation* consists of a single individual, as a member or representative of it. Of this class in the institution of the English church are the ecclesiastics, known as bishops, deans, parsons and vicars, who possess certain temporal rights and franchises, and whose successors continue to

[1] Dartmouth College v. Woodworth, 4 Wheat. (U. S.) 636.

Blackstone observes that, "as all personal rights die with the person, and as the necessary forms of investing a series of individuals, one after another, with the same identical rights, would be very inconvenient, if not impracticable, it has been found necessary, when it is for the advantage of the public, to have any particular rights kept on foot and continued, to constitute artificial persons, who may maintain a perpetual succession, and enjoy a kind of legal immortality." 1 Bl. Com. 467.

enjoy the same rights as a sole corporation.[1] In New York a supervisor of a town is held to be *sub modo* a sole corporation,[2] so an overseer of the poor,[3] and as to the latter class of officers, the same doctrine has been held in Mississippi.[4]

The king is regarded as a sole corporation, and his successors enjoy the same franchises by virtue of this sole corporation which he constitutes.[5] It is in this sense that the king never dies.

It is claimed that sole corporations are an invention of the English law, as they are unknown as original institutions to the civil law, from which most of the law relating to corporations is derived. The familiar maxim of the Roman law was *tres faciunt collegium*. But it was a doctrine of the civil law that if a corporation, originally consisting of three persons, was reduced to one, "*se universitus ad unam redit*," it might still exist as a corporation, "*et stat nomen universitatus*."[6] There are few principles of the general law of corporations applicable to sole corporations.[7] But we shall hereafter notice statutes of various states providing for the incorporation of a single person for pecuniary gain under general laws of incorporation, and call attention to the fact, that an individual may become entitled to the rights and franchises of a corporation aggregate, by purchase of the same on a sale thereof on execution against the corporation, or on

[1] 1 Bl. Com. 469; Bac. Abr., tit. Corp. If it consists of one member only, it is denominated a *sole* corporation; if of more than one, an *aggregate* corporation. The members of an aggregate corporation may not only consist of natural persons, but of other corporations and of partnerships; and it does not lose its legal identity by any change of its members during its legal existence. If a parson holds his possession singly he is a corporation sole; but if with others, he makes a chapter, and is a member of a corporation aggregate. Id.; Wats. Comp. Incumb. 372. In those states of the Union where the religious establishment of the Church of England was adopted when they were colonies, together with the common law on that subject, the minister of the parish was seized of the freehold as *persona ecclesiæ*, in the same manner as in England; the right of his successor being thus established was not divested by the change of government. The Town of Pawlet v. Clark, 9 Cranch (U. S.), 292. In England the freehold of the churchyard, parsonage-house, the glebe and the tithes of the parish were vested in the parson as a sole corporation. 1 Bl. Com. 469. The king, as well as parliament, is a sole corporation. The case of Sutton's Hospital, 10 Coke, 29, b; 1 Shepard's Abr. 431.

[2] Janson v. Ostrander, 1 Cow. (N. Y.) 670.

[3] Rouse v. Moore, 18 Johns. (N. Y.) 407.

[4] Govenor v. Gridley, 1 Miss. 328.

[5] 1 Bl. Com. 470; Bac. Abr., tit. Corp. The king is made a sole corporation in order to prevent an *interregnum* or vacancy of the throne. 1 Bl. Com. 470.

[6] 1 Bl. Com. 469.

[7] 1 Woodeson's Lect. 471; 2 Kent's Com. 307.

a sale made under a power contained in a deed of trust, executed by the corporation.[1] We have said that aggregate corporations consist of two or more persons, although the civil law required at least three. Of the class denominated aggregate corporations are the mayor and commonalty of a city, the head and fellows of a college, the dean and chapter of a cathedral church, and most of the corporations, both public and private, in this country. Another division of corporations is into ecclesiastical and lay. In the former the persons comprising them and the objects for which they are constituted are spiritual or religious, and they embrace all such corporations as are organized under general statutes of the various states, providing for the incorporation of religious societies. Again, lay corporations are divided into two kinds, eleemosynary and civil. Eleemosynary corporations embrace all such as are constituted for the perpetual distribution of the arms and bounty of the founder, such as hospitals, colleges, and academies.[2] Again, civil corporations are divided into public and private. Public corporations are such as are created for political purposes, and embrace all such as come under the denomination of municipal corporations, as counties, cities, towns, and villages.[3] Private corporations are such as are created for a variety of temporal purposes, and for pecuniary gain to the members composing it, and embrace such as are created for banking, insurance, railroad, canal, bridge, turnpike, manufacturing, building, and for other commercial and business purposes, for the personal gain and emolument of its members.

[1] It is sometimes provided by statute that the franchise of a corporation may be levied upon and sold under an execution, the purchaser becoming vested with all the powers of the corporation. Iowa Code (1873), § 1086; see also, as to the authority of a single individual to entitle himself to the advantages of a corporation aggregate, Iowa Code (1873), § 1088. See, also, *post*, chap. 15. In Overseers, etc., v. Sears, 22 Pick. (Mass.) 125, it was said: "We are not aware that there is any instance of a sole corporation in this commonwealth, except that of a parson, who may be seized of parsonage lands, to hold to him and his successors in the same office in right of his parish." But ministers were made sole corporations by statute in 1785, chap. 51, which is the same as 28 Geo. 2, for the express purpose of holding such parsonage lands, and under this statute they were held to stand on the same foundation as other corporations holding lands in succession at common law. Weston v. Hunt, 2 Mass. 500. See Gen. Stat. Mass., chap. 31; Brown v. Porter, 10 Mass. 93.

[2] 1 Bl. Com. 471.

[3] 2 Kent's Com. 275.

SEC. 3. **Distinction between public and private corporations.**—As we propose to consider and illustrate the law applicable to private corporations only, it may be proper to consider the distinction as to membership between the two great and most common divisions of corporations, viz.: public and private corporations. In public corporations, membership consists only in residence within the territorial limits of the corporation. A citizen, for instance, of a county, city, town, village, or school district, duly incorporated, is a member of such corporation; and it is not necessary, as with private corporations, that the members or citizens constituting it should, in any manner, accept of the charter or statute creating the same. On the other hand, membership in private corporations can, originally, only be created by an acceptance of the provisions of the charter tendered to them, or voluntarily organizing under the provisions of the statutes providing for incorporation, or complying with the provisions of the general statute of the state in relation thereto.[1] And it has been held, that a corporation is private as distinguished from public, unless the whole interest belongs to the government, or the corporation is created for the administration of political or municipal power.[2]

The distinction between private and public corporations is thus stated by Mr. DILLON: "Private corporations," says he, "are created for private purposes, as distinguished from governmental purposes; and they are not, in the contemplation of law, public, because it may have been supposed by the legislature that their establishment would promote, either directly or consequentially, the public interest. They cannot be compelled to accept a charter or incorporating act. The assent of the corporation is necessary to make the incorporating statute operative. But when assented to, the legislative act is irrevocable, and it cannot, without the consent of the corporation, be impaired or destroyed by any subsequent act of legislation, unless the right to do so was reserved at the time. Public corporations are called into being at the pleasure of the state, and while the state may, it need not obtain the consent of the people of the locality to be affected. The character

[1] Overseers of Poor v. Sears, 22 Pick. (Mass.) 122; Oakes v. Hill, 10 id. 333.

[2] Rundle v. Delaware & Raritan Canal Co., 1 Wall., Jr. (U. S.) 275. But a corporation is not necessarily public because it is of general public interest. Ten Eyck v. Delaware & Raritan Canal Co., 18 N. J. L. 200; Tinsman v. Belvidere, etc., R. R. Co., 26 id. 148.

of a municipal corporation is in no sense a contract between the state and the corporation, although, as we shall see, private or vested rights in favor of third persons, if not in favor of the corporation, may arise under it. Public corporations, within the meaning of this rule, are such as are established for public purposes exclusively — that is, for purposes connected with the administration of civil or local government; and corporations are public only when, in the language of Chief-Justice Marshall, the whole interests and franchises are the exclusive property and domain of the government itself." [1]

Sec. 4. **Quasi corporations.**—There is a class of joint-stock associations, organized for private pecuniary purposes, under special statutes, that possess some of the powers and attributes, or common-law incidents of corporations, and may be designated as *quasi corporations.* Provision was made for these limited or qualified partnerships, in France, as early as 1673, by an ordinance, *la société en commandite*, by which one or more special or silent partners might furnish a certain portion of capital to be used in the partnership affairs, and only be liable to the extent of the funds thus furnished.[2] It is believed that similar statutory enactments may be found in most of the states of Europe, as well as of the Union; and the members of such partnerships or joint-stock associations, in respect to their personal liability for the debts of the association, are placed on the same footing as corporators.

The condition required in such cases, in order to exempt from unlimited liability, is the recording in some public office, or the publication in some manner, of a statement or certificate of the terms and conditions of the copartnership, and of the extent or limit of liability of the partners. An English act of parliament also permitted the secretary of a commercial joint-stock partnership to sue and be sued as a representative of the company, and allowed members of the same to sue the company.[3] This was con-

[1] 1 Dill. on Mun. Corp., §§ 29, 30; *post*, chap. 3.

[2] French Code, Répertoire ou Jurisprudence par Merlin, tit. Société, art. 2, Code de Com., b. 1, tit. 3, § 1.

[3] See history of early English legislation on this subject, opinion of Lord Eldon in Van Sandau v. Moore, 1 Russ. Ch. 441. See, also, 2 Bell's Com., B. 7, chap. 2, p. 627, *et seq.;* Story on Part., § 77 and notes; 25 and 26 Vict., chap. 89; "The Companies' Act, 1862;" 30 and 31 Vict., chap. 131; "The Companies' Act, 1868," regulating joint-stock companies.

ferring upon a partnership an additional corporate quality, that otherwise it would not possess; and a recent English act,[1] among other things, provides that the separate property of the members of such companies as shall be organized under it shall be liable to the satisfaction of judgments obtained against such company, only after due diligence has been used to obtain satisfaction out of the property of the company.

SEC. 5. **Origin and early history of private corporations.**—The origin of private corporations is hidden in the obscurity of the remote past. They probably existed in Greece in the age of Solon, the law-giver, as his laws provided for the institution of private corporations, on condition of subjection and obedience to the laws of the state.[2] They also existed in Rome at an early period in the history of the republic; authority being conferred by the Twelve Tables to private companies, to make by-laws, not inconsistent with the public law; which provision, it has been claimed, was copied from the laws of Greece. The probability, that the Roman idea of corporate institutions was obtained from the Grecians, is perhaps increased by the fact, that Rome obtained much of her literature, philosophy, and fine arts, as well as jurisprudence from Greece.[3]

The value and importance of corporations, in developing and keeping on foot the leading industries of any country, is incalculable, and the desirability of such a concentration of capital and union of business experience is illustrated by the very large number of such corporations in existence in this country, and the wonderful results which have been wrought thereby; results which could never have been accomplished except through the intervention of these agencies, and the prejudices formerly existing against "soulless corporations," as they have been termed, are rapidly disappearing.

[1] 7 and 8 Vict., chap. 110.
[2] Ayliffe's Treat. on Civ. L. 197; Dig. 47, 22, 4; 2 Kent's Com. 268.
[3] Table 8; Plut. Life of Numa.

CHAPTER II.

HOW CORPORATIONS ARE CREATED.

Sec. 6. Creation an act of sovereignty.
Sec. 7. Creation by royal charter.
Sec. 8. Creation by act of parliament.
Sec. 9. Corporations at common law and by prescription.
Sec. 10. How created in this country.
Sec. 11. Power of congress to create.
Sec. 12. Sovereign authority of legislatures.
Sec. 13. General statutes of incorporation.
Sec. 14. The national banking law.
Sec. 15. Of the power to delegate authority to create.
Sec. 16. Of the power of territorial legislatures to create.
Sec. 17. Corporations by prescription in this country.
Sec. 18. Foreign joint-stock companies may be corporations.
Sec. 19. The corporate name.
Sec. 20. The location of corporations.
Sec. 21. Words of incorporation in royal grants.
Sec. 22. Common-law incidents of a corporation.
Sec. 23. Acceptance of the grant.
Sec. 24. Mode of acceptance.
Sec. 25. Same continued.
Sec. 26. Acceptance must be unconditional.
Sec. 27. Acceptance under general laws.
Sec. 28. The term, "constating instruments."
Sec. 29. Organization of a corporation.

Sec. 6. **Creation an act of sovereignty.**—The power to confer corporate franchises and privileges is exclusively vested in the sovereign authority of the state or general government. It is an act of sovereignty. Hence, by the civil law, franchises could only be conferred by a decree of the senate, or the imperial constitutions;[1] notwithstanding the observation of Blackstone, that under the civil law, they "seem to have been created by the mere act

[1] 1 Brown's Civ. L. 143; Dig., vol. 196; Domat's C. L., Prel. B, tit. 11, § 2, 47, tit. 22; Wood's C. L. 134; Ayliffe, 15.

and voluntary association of their members."[1] "But," he observes, "with us, in England, the king's consent is absolutely necessary to the erection of any corporation, either impliedly or expressly given."[2]

A fundamental rule, invariable in its application, is that no corporation can exist, except under and by the authority of the sovereign power,[3] and companies or societies which are not sanctioned expressly by the sovereign power, pursuant to some general or special law, are nothing more than ordinary partnerships,[4] and the ground upon which it is held that incorporation by prescription may exist is upon the presumption that a grant formerly existed, and that all due formalities as to organization under it have been observed.[5]

No special form of words are necessary to create a corporation, and a mere grant of the power to perform corporate acts, of itself, implies a grant of corporate powers,[6] and if no act is required to be done to bring the corporation into being, the franchise attaches at once; but if some future act is required to be done to bring the corporation into existence, the franchise remains in abeyance until such act is done, and then attaches immediately, and the corporation is endowed with a legal existence.[7] A mere grant of lands by the state to individuals, to be possessed and enjoyed by them in a corporate character, has been held in itself to confer upon such individuals capacity to take and hold in a corporate character.[8]

SEC. 7. **Creation by royal charter.**—According to the ancient common law of England, the king, by virtue of his prerogative, was the only creator of corporations; and this right was said to

[1] 1 Bl. Com. 472. "It does not appear that the prince's consent was necessary to be actually given to the foundation of them, but merely that the original founders of these friendly societies, for they were little more than such, should not establish any meetings in opposition to the laws of the state." Id.

[2] Id.

[3] Ernst v. Bartle, 1 Johns. (N. Y.) Cas. 319; Medical Inst. v. Patterson, 1 Den. (N. Y.) 61.

[4] Wells v. Gates, 18 Barb. (N. Y.) 554.

[5] All Saints' Church v. Lovett, 1 Hall (N. Y.), 191; United States v. Amedy, 11 Wheat. (U. S.) 392.

[6] Com. v. West Chester R. R. Co., 3 Grant's Cas. (Penn.) 200.

[7] Dartmouth College v. Woodward, 4 Wheat. (U. S.) 518.

[8] North Hempstead v. Hempstead, 2 Wend. (N. Y.) 119.

be "the flower of the prerogative."[1] But more recently it was held that the king's charter could, under the English constitution, confer only ordinary corporate powers, and that extraordinary authority could only be granted by the transcendent power of parliament.[2] And if the king grants charters and attempts to confer powers therein, which infringe upon constitutional rights, they are void.[3]

Sec. 8. **Creation by act of parliament.**— Notwithstanding the claims made, that the granting of charters to corporate bodies belongs to the king's prerogatives, it seems that parliament, as the representative also of sovereignty, may, by act, create corporations, to which the royal assent is, however, presumed to be given.[4] But acts of parliament, relating to corporate franchises, were formerly confined to confirmation of those charters previously granted by the king, or they conferred on the king power to create them *in futuro*. In the latter case, "however, the immediate creative act was usually performed by the king alone, in virtue of his royal prerogative."[5]

[1] 1 Bl. Com. 472; 4 Co. 107 b.; 10 id. 33 b.; 2 Bac. Abr. (Am. ed.) 438, tit. Corp.; 2 Kyd on Corp. 42; Miller's Eng Gov. 149; Ang. & Am. on Corp., § 67; 1 Wilc. on Corp. 25; 1 Dill. on Corp. 53.

[2] 1 Bl. Com. 474; 1 Dill. on Corp., § 15

[3] Id.

[4] 1 Bl. Com. 473; 10 Co. Rep. 29; 1 Roll. Abr. 512.

[5] 1 Bl. Com. 473. See, also, respecting the authority of the crown to grant charters to incorporate towns, General Municipal Corp. Act of England, 1835; also, Rutter v. Chapman, 8 M. & W. 1; Reg. v. Boucher. 3 Q. B. 654; Dill. on Corp., § 16.

General statutes have been enacted in England, under which most of the corporations are now instituted, among which are the following:

The Companies Act, 1862, 25 and 26 Vict., chap. 89; and The Companies Act, 1867, 30 and 31 Vict., chap. 131, which relate to and regulate all joint-stock companies not created by special acts, or charters; The Industrial and Provident Societies Act, 1862, 25 and 26 Vict., chap. 87, which was amended by 30 and 31 Vict., chap. 117, and 34 and 35 Vict., chap. 80, which relate to friendly societies, and other similar associations; The Life Assurance Societies Act, 1870, 33 and 34 Vict., chap. 61, as amended by 34 and 35 Vict., chap. 58, and 35 and 36 Vict., chap. 41; The Companies Clauses Consolidation Act, 8 and 9 Vict., chap. 16; and the Railways Clauses Consolidation Act, chap. 20.

"The above statutes and especially the first two, The Companies Acts of 1862 and 1867," observes Mr. Brice, "enable persons by a very simple and speedy process to unite themselves into, and thereby create a corporation for almost any and every purpose of life, commercial or otherwise. The constitution of such corporation, its objects and purposes, its rights and powers, and those of its various members, will be determined by the instruments drawn up — the memorandum and articles of association — at the time of registration. The acts themselves contain but little upon these heads. The chief specific provisions

SEC. 9. **Corporations at common law and by prescription.**— In England corporations exist, also by what is termed by common law, and by prescription. But in such cases a grant by charter of the king or act of parliament must be presumed. Those recognized at common law are such as have continued from time immemorial to exercise corporate privileges, but whose grant or charter cannot be found. And the same may be said in reference to corporations by prescription.

Each rests upon a supposed grant, and it is difficult to draw any distinction in this respect between them, though they have been frequently thus designated and distinguished.[1]

In this country also, presumptions are sometimes made in favor of the incorporation of associations, without actual proof of the same. And proof of the existence of a corporation by reputation has been allowed from user, where it had continued to act as such for several years, but the original act of incorporation could not

found in them relate to the formalities and other circumstances connected with the foundation and the dissolution, voluntary or forced, of the corporation, and with the assembling periodically of the members. The enactments that concern the working and control of the corporation, and the rights and liabilities of the shareholders and other matters belonging to the internal management of the association, are but mere *generalia*, it being left to the individuals from time to time composing the association, to fix and prescribe these in a more particular manner, and in accordance with the exigencies and requirements of the undertaking in which they propose to engage. These statutes give to the bodies coming within their purview no arbitrary or compulsory power of dealing with the rights, pecuniary or proprietary, of others than their own members." Green's Brice's Ultra Vires, 24. See, also, Buckley, pp. 15, 345.

[1] 1 Bl. Com. 473; Dill. on Corp., § 15; 1 Kyd on Corp. 41, 42; 2 Kent's Com. 277; Town of Pawlet v. Clark, 9 Cranch (U. S.), 292; 2 Inst. 330; Bract. 1, chap. 24, f. 55; 10 Co. 33; Ayliffe, 210. There are a class of associations, not incorporated, partaking, however, of the nature of both corporations and partnerships, that are in some respects entitled to the advantages of corporations, and which are sometimes called *quasi* corporations. Bullard v. Kinney, 10 Cal. 60; Williams v. Bank of Michigan, 7 Wend. (N. Y.) 542; Atkins v. Hunt, 14 N. H. 205; Babb v. Reed, 5 Rawle (Penn.), 151; Wells v. Gates, 18 Barb. (N. Y.) 554; Cox v. Bodfish, 35 Me. 302. But such associations cannot be regarded as even *quasi* corporations, because they have not the capacity to sue or be sued as an artificial person, Com. v. Green, 4 Whart. (Penn.) 531; Niven v. Spickerman, 12 Johns. (N. Y.) 401; but must sue either in the name of all the members, Hahicht v. Pemberton, 4 Sandf. (N. Y.) 657; or, where the members are numerous, in the name of one or more for the benefit of all, Wood v. Draper, 24 Barb. (N. Y.) 187; Dennis v. Kennedy, 19 id. 517; so, too, there is another very important distinction existing between these associations and corporations, which is, that a member of the association cannot sue it. Bullard v. Kinney, 10 Cal. 60; Ewing v. Medlock, 5 Port. (Ala.) 82.

be found.[1] And it has been held in this country, that the exercise of corporate powers for a long time (twenty years) without objection, and with the knowledge and assent of the legislature of the state, furnished conclusive evidence of a charter, or constituted a corporation by prescription, which supposes an original grant.[2]

Sec. 10. **How created in this country.**— In this country corporate rights can only be conferred by legislative acts.[3] According to the theory of our government the sovereign or supreme authority is vested in congress and the legislatures of the various states, each having its proper and limited sphere of action. Hence corporate franchises, which can only be conferred by the sovereign authority, must be secured by either an act of congress or of the legislature of the state where the corporation is to be created.[4] So, a legislature may provide for the creation of an indefinite number of corporations in one act, as well as a definite number.[5] And there is no legal difficulty in the way of the creation of a single corporation by the concurrent action of the legislatures of two or more states, nor of the creation of a corporation, where one of the constituents is a foreign corporation.[6]

Sec. 11. **Power of congress to create.**— The congress of the United States is sovereign in respect to those powers conferred upon it by the constitution of the general government, and the legislatures of the several states are sovereign in respect to those powers, unless prohibited by the constitutions of the respective states, or in conflict with the federal constitution. On general principles

[1] Dillingham v. Snow, 5 Mass. 547. See, also, Bassett v. Porter, 4 Cush. (Mass.) 487; Barnes v. Barnes, 6 Vt. 388; Londonderry v. Andover, 28 id. 416; Sherwin v. Bugbee, 16 id. 439; Ryder v. Railroad Co., 13 Ill. 523; Highland Turnpike Co. v. McKean, 10 Johns. (N. Y.) 154; Owings v. Speed, 5 Wheat. (U. S.) 420; New Boston v. Dumbarton, 15 N. H. 201.

[2] Bow v. Allenstown, 34 N. H. 351. See, also, Jameson v. People, 16 Ill. 257; People v. Maynard, 15 Mich. 463; Railroad Company v. Chenoa, 43 Ill. 209; Virginia City v. Mining Company, 2 Nev. 86; Railroad Co. v. Plumas Co., 37 Cal. 354.

[3] 1 Dill. on Corp., § 17; 2 Kent's Com. 277; United States Trust Co. v. Brady, 20 Barb. 119; Pennsylvania, etc., R. Co. v. Canal Com., 21 Penn. St. 9.

[4] Franklin Bridge Co. v. Wood, 14 Ga. 80.

[5] Falconer v. Campbell, 2 McLean (U. S. C. C.), 195.

[6] Bishop v. Brainerd, 28 Conn. 289. The life of a private corporation dates from the time it commences to do business. Hanna v. International Petroleum Co., 23 Ohio St. 622.

it is evident that each state has the power to create corporations, or make general laws whereby they may be created (unless expressly prohibited from so doing by constitutional provisions), as incidental to their sovereign power and authority, and although not particularly enumerated among its constitutional powers. This doctrine was settled, after much discussion and consideration, by our courts at an early period in the history of our government; and those early decisions have been followed, not only by the federal, but by the various state courts. In an early case in the supreme court of the United States, in reference to the incidental and implied powers of congress to create corporations, the court said: "If we look to the origin of corporations, to the manner in which they have been framed in that government from which we have derived most of our legal principles and ideas, or the uses to which they have been applied, we find no reason to suppose that a constitution omitting, and wisely omitting, to enumerate all means for carrying into execution the great powers vested in government, ought to have specified this." [1]

Although no express power is found in the federal constitution for the creation of corporations, the right is now universally recognized by the courts, and has frequently been exercised by congress, not only by special and general statutes for the creation of national banks within the states, but also for the creation of corporations, both public and private, in the several territories of the Union.[2]

SEC. 12. **Sovereign authority of state legislatures.**— The legislatures of the several states have the power to make laws, and legislate upon all subjects pertaining to the public benefit, and this, in the absence of express provisions on the subject in the constitution, carries with it, by implication, the right to use all the means requisite to the accomplishment of the objects of legislation, consistent with the purposes for which the government is instituted, and with the state and national constitutions. The public benefit

[1] McCulloch v. State of Maryland, 4 Wheat. (U. S.) 421. See, also, 1 Ham. Works, 111.

[2] See *ante*, § 15; Dill on Corp., § 18; McCulloch v. State of Maryland, 4 Wheat. (U. S.) 316; Osborn v. Bank of U. S., 9 id. 738; Thomson v. Pacific R. Co., 9 Wall. (U. S.) 579; Pacific R. Co. v. Lincoln Co., 1 Dill. (U. S. C. C.) 314. See, also, as to national banks, U. S. Rev. Stat. (1874), p. 998.

to be derived is the consideration on the part of the state for the creation of private corporations. The motive of the sovereign creating it is supposed to be some good that the public will derive from it.[1] This advantage has been considered sufficient to bring their creation, by the legislatures, within the scope of their general powers to legislate for the public benefit, and it seems now to be universally recognized.[2]

Sec. 13. **General statutes for incorporation.**—It is undoubtedly the true public policy to provide for the incorporation of corporations, either public or private, by general statutes enacted for that purpose. Mr. Dillon alludes to this policy in reference to municipal corporations; and the advantages of general statutory enactments in relation to incorporations for municipal purposes, would be equally applicable to private ones. He says: "1. It tends to prevent favoritism and abuse in procuring extraordinary grants of special powers. 2. It secures uniformity of rule and construction. 3. All being created and endowed alike, real wants are sooner felt and provided for, and real grievances sooner redressed."[3]

Governed by this evident public policy, the legislatures of most of the states have passed general statutes for the incorporation of private associations for all the various objects and private purposes to which the talents and capital of the citizen may be profitably directed. In fact, the constitutions of many states particularly prohibit special acts of incorporation, or only permit incorporations under general laws.[4] General statutes on the subject of incorporations generally prescribe the manner in which private corporations may be organized; the business to be con-

[1] Domat's Civ. L. 452; 1 Bl. Com. 467; Dartmouth College v. Woodward, 4 Wheat. (U. S.) 637; Currie's Adm. v. Mut. Assur. Co., 4 H. & M. (Va.) 347.

[2] United States Trust Co. v. Brady, 20 Barb. (N. Y.) 119; 1 Dill. on Corp., § 17; Black River, etc., R. Co. v. Barnard, 31 Barb. (N. Y.) 258.

An English joint-stock company, having powers incident to a corporation, has been treated as a corporation in this country, although an act of parliament declared that such company should not be treated as a corporation. Liverpool Ins. Co. v. Massachusetts, 10 Wall. (U. S.) 566.

[3] 1 Dill. on Mun. Corp., § 20.

[4] Const. Ia., art. 3 (Leg. Def.), § 30; Const. Cal., art. 4, § 31; Const. N. Y., 1846, art. 3, § 17. If the constitution prohibits the creation except under general laws, it is restrictive in the strict sense of the term; and no powers can be granted by a special act. City of San Francisco v. Spring Valley Water-Works, 48 Cal. 493.

ducted by them; the limit of the liability of members; and, in general, the powers, privileges and immunities intended to be conferred, and the liabilities imposed, among which are usually the following: 1. To have perpetual succession; 2. To sue and be sued by the corporate name; 3. To have a common seal which they may alter at pleasure; 4. To render the interests of the stockholders transferable; 5. To exempt the private property of members from liability for corporate debts; 6. To make contracts, acquire and transfer property, possessing the same powers and rights, and subject to the same liabilities in those respects as private individuals; 7. To establish by-laws and make all rules and regulations deemed expedient for the management of their affairs in accordance with law.

These powers and franchises it will be noticed are among the common-law incidents of corporations. But the power of the legislature is supreme in this respect, and there can be no doubt of its right to extend or limit the common-law rights of corporations, or prohibit them altogether. The mode of organizing private corporations for pecuniary gain under these general statutory provisions is, as we have observed, provided for, and directed by them. Parties desiring to become incorporated are usually required, preliminary thereto, to subscribe certain articles of association, containing generally the following items, or some of them, to-wit:

The name of the corporation, and the principal place of transacting business; the general nature of the business to be transacted; the amount of the capital stock authorized and the times and conditions of payment; the time of the commencement and termination of the corporation; by what officers or persons its affairs are to be conducted, and the times at which they will be elected; and the highest amount of indebtedness to which it is at any time to subject itself. Other things may be required, but these items will perhaps cover the general requirements of such articles by the statutes. These articles are also usually required to be recorded in some public office, and some notice of the same, in some manner, publicly given. And they not only frequently provide for the punishment of the corporators guilty of fraud in

the organization and management of the same, but subject them to personal liability therefor.[1]

Sec. 14. **The national banking law.**— The act of congress, providing for the association and incorporation of persons for the carrying on of the business of banking, provides that they shall consist of not less than five persons, who are required, as a preliminary step to incorporation, to sign articles of association, which must specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may think fit to adopt for the regulation of its business, and the management of its affairs; and they are required to be signed by the persons uniting to form the association, and a copy of them is required to be filed in the office of the comptroller of the currency.[2]

[1] Code Iowa, tit. Corp. 183; Mass. St. 1870, chap. 324; statute 1873, 173; 1874, chap. 29, 165, 349. On the subject of the personal liability of members or stockholders of corporations in the various states, see *post*, § 71, note 3.

[2] Act June 3, 1864, chap. 106, § 5, v. 13, Par, 100; Rev. Stat. (1874), p. 998, tit. 62, § 5133. This act further provides:

Sec. 5134. The persons uniting to form such an association shall under their hands make an organization certificate, which shall specifically state:

First. The name assumed by such association; which name shall be subject to the approval of the comptroller of the currency.

Second. The place where its operations of discount and deposit are to be carried on, designating the state, territory or district, and the particular county, and city town or village.

Third. The amount of capital stock and the number of shares into which the same is to be divided.

Fourth. The names and places of residence of the shareholders, and number of shares held by each of them.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this title.

Sec. 5135. The organization certificate shall be acknowledged before a judge of some court of record, or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary, transmitted to the comptroller of the currency, who shall record and carefully preserve the same in his office.

Sec. 5136. Upon duly making and filing articles of association and an organization certificate the association shall become as from the date of the execution of its organization certificate a body corporate, and as such and in the name designated in the organization certificate, it shall havepower:

First. To adopt and use a corporate seal.

Second. To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchises become forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier and other officers, define their duties, require bonds of them and fix the pen-

SEC. 15. **Of the power to delegate authority to create a corporation.**—Although it was formerly held in England that the act of incorporation must be the immediate act of the sovereign authority, yet the law seems now well settled there, that the king may give a general authority to some other person to create them, on the principle that, *qui facit per alium facit per se.*[1] For instance, it has been held that the chancellor of the university of Oxford is authorized to grant corporate privileges by virtue of the royal authority conferred upon him, and that by virtue of such authority he may create incorporated companies of tradesmen; but this is upon the theory, after all, that the king creates.[2]

SEC. 16. **Of the power of territorial legislatures to create.**—It is evident that the various legislatures of our territories, under the general legislative authority conferred by congress, may create corporations as incident to the authority possessed by them, subject, however, to the provisions of the acts of congress conferring

alty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws, not inconsistent with law, regulating the manner in which its stock shall be transferred, its general business conducted, and the privileges granted to it by law exercised and enjoined.

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange and other evidences of debt; by receiving deposits; by buying and selling exchange, coin and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the comptroller of the currency to commence the business of banking.

Sec. 5137. A national banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales, under judgments, decrees or mortgages held by the association, or shall purchase to secure debts due it. But no such association shall hold such real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

[1] 1 Kyd on Corp. 50; 1 Bl. Com. 473.

[2] 1 Bl. Com. 473. See, also, 3 Wills., § 409; St. Mary's Church, 7 S. & R. 517; State v. Armstrong, 3 Sneed, 634; Riddick v. Amelin, 1 Mo. 5; Mayor, etc., v. Shelton, 1 Head (Tenn.), 24; Vance v. Farmers' Bank, 1 Blackf. (Ind.) 80.

this authority. In such cases the soveriegn authority of the United States, or of congress as the representative of it, is conferred upon the legislature of the territory, and the territorial authority in this respect is supreme.

It is now, however, expressly provided by an act of congress that "the legislative assemblies of the several territories shall not grant private charters or special privileges, but may, by general incorporation acts, permit persons to associate themselves together as bodies corporate, for mining, manufacturing and other industrial pursuits, or the construction or operation of railroads, irrigating ditches, and the colonization and improvement of lands in connection therewith, or for colleges, churches, libraries, or any benevolent, charitable or scientific association." [1]

If, by virtue of any special or general act of such territorial legislature, a corporation is created or organized, it could not be affected in respect to its corporate rights by the subsequent adoption of a state constitution, or by any change made by subsequent acts of the legislature thereunder in relation to incorporations.[2]

Sec. 17. **Corporations by prescription in this country.**— We have already referred to the existence of corporations by prescription in England, and shown that even in this country the same doctrine has been recognized in reference to corporate existence.[3] The English doctrine has been recognized in relation to a class of corporations now very limited in this country, where the corporate rights were conferred previous to our independence. The common law of England at that time became a part of our inheritance, and corporations then existing here, with all their common-law incidents, continued to exist, and were not affected by the new organization and establishment of our government. At that time the English church establishment existed in this country, carrying with it those corporate rights of the parsons thereof to take in succession, and securing to him and other officers of the church all the common-law corporate rights pertaining to them. If before the Revolution an Episcopal church was duly estab-

[1] Rev. Stat U. S. (1874), tit. 23, chap. 1; tit. Territories, p. 333, § 1889.

[2] Vincennes University v. Indiana, 4 How. 268; Myers v. Bank, 20 Ohio, 83.

[3] *Ante*, § 13; 2 Kent's Com. 277.

lished, the parson was by the common law entitled to the glebe *jure ecclesiæ*, and was capable of transmitting the inheritance; and such corporations have been recognized by our courts since the establishment of our government.[1] Where a parish had acted as a corporation for more than forty years it was held proper to show its corporate existence by reputation.[2] And where for thirty years a town had exercised corporate privileges, it was permitted to show this by parol as tending to prove that it had been duly incorporated with the ordinary powers of incorporated towns.[3]

On the subject of the continuance of corporate rights existing in this country at the time of the establishment of our independence, Mr. Kent observes: "There are, however, several of the corporations now existing in this country, civil, religious and eleemosynary, which owed their origin to the crown and under the colonial administration. Those charters granted prior to the Revolution were upheld either by express provision in the constitutions of the states, or by general principles of public and common law, of universal reception; and they were preserved from forfeiture by reason of any nonuser or misuser of their powers during the disorders which necessarily attended the Revolution."[4]

The recognition of corporations by prescription is from the reasonable presumption, that as they have been recognized and suffered to exist for a long time they were originally lawfully created. In England the doctrine is more important than in this country, where our existence as a nation is comparatively short, where corporations are all created by legislative acts, and there are few occasions for the application of it to corporate claims.

SEC. 18. **Foreign joint-stock companies may be corporations.**— In a recent case in this country, an English joint-stock company, having the incidents and powers of a corporation at common law, was held to be a corporation, although acts of parliament, in accordance with a local policy, declared that it should not be so held. The company was organized under the laws of Great Britain,

[1] Town of Pawlet v. Clark, 9 Cranch, 294; Terrett v. Taylor, id. 43.
[2] Dillingham v. Snow, 5 Mass. 547.
[3] Hagerstown Turn. Co. v. Creeger, 5 H. & J. (Md.) 122; Warden, etc., v. Hart, 1 C. & P. 113. See, also, 1 Dill. on Corp., § 17; *ante*, § 14.
[4] 2 Kent's Com. 276.

for the purpose of conducting the business of insurance under a certain deed of settlement, legalized and enlarged by acts of parliament, and by virtue of such deed and such acts possessing the following characteristics and powers: 1. A distinctive and artificial name, by which it could make contracts; 2. A statutory authority to sue and be sued in the name of its officers as the representatives of the whole body; 3. Perpetual succession by the transfer and transmission of the shares of its capital stock, when new members were introduced in the place of those who died or sold out; 4. An existence as an entity apart from the shareholders, which enables it to sue its stockholders and be sued by them. A statute of Massachusetts, where the company was transacting business, imposes upon "each fire, marine, and each fire and marine insurance company, incorporated or associated under the laws of any government or state, other than one of the United States, a tax of four per cent upon all premiums charged or received on contracts made in this commonwealth for insurance of property." The same statute imposes a tax of but two per cent upon such premiums when the company is incorporated under the laws of any one of the United States other than Massachusetts; and upon such companies incorporated by itself in Massachusetts only one per cent, while no tax is imposed by the laws of the state upon the business of insurances transacted by any natural persons citizens of the same. The company failed to pay the tax prescribed by the statute, and the state filed a bill in the proper court to enforce the payment of the same or the suspension of the business of the company. In defense the company claimed that it was not incorporated at all, but was merely an association under the laws of Great Britain, having the legal character of a partnership; and that it could not be taxed as a "company incorporated under the laws of any government or state other than one of the United States;" that the character of the association must be determined by the laws of Great Britain; that under those laws the association was a mere partnership of a large number of persons, having certain privileges granted by statute; that these privileges cannot be enjoyed in this country; that they relate to remedies; that the acts of parliament are inoperative beyond the limits of the jurisdiction of the courts of

Great Britain; that the right to be sued in the names of its officers is of no avail in this country; and that the English authorities show that the association is not a corporation.[1] On the other side it was claimed that this association was, by act of parliament, clothed with all the characteristics of a corporation; and that its legal character could not be changed by calling it something else.

On the final hearing of this case the company was enjoined from the further prosecution of its business until the taxes found due should be paid. And the supreme court of the United States, to which the case was taken, affirmed this judgment. Justice MILLER, in delivering the opinion of the court, remarks: "The banking business of the states of the Union is now conducted chiefly by corporations organized under a general law of congress, and it is believed, that in all the states, the articles of association of this company would, if adopted with the usual formalities, constitute it a corporation under their general laws, or it would become so by such legislative ratification as is given by the acts of parliament we have mentioned. To this view it is objected that the association is nothing but a partnership, because its members are liable individually for the debts of the company. But, however the law on this subject may be held in England, it is quite certain that the principle of personal liability of the shareholders attaches to a very large portion of the corporations of this country, and it is a principle which has warm advocates for its universal application when the organization is for pecuniary gain. So, also, it is said that the fact that there is no provision, either in the deed of settlement or the act of parliament, for the company suing or being sued in its artificial name forbids the corporate idea. But we see no real distinction, in this respect, between the act of parliament, which authorizes suits in the name of the Liverpool and London Fire and Life Insurance Company, and that which authorized suit against that company in the name of its principal officer. If it can contract in the artificial name and sue and be sued in the name of its officers on those contracts, it

[1] Harrison v. Timmons, 4 M. & W. 510; Bartlett v. Pentland, 1 B. & Ad. 704; Van Sandau v. Moore, 1 Russ. 441; Cape's Ex'rs, 2 De Gex, Macn. & G. 562; Mayhew's case, 5 id. 837; Blakeley's Ex'rs, 13 Beav. 133; Burnes v. Pennell, 2 H. of L. C. 497.

is in effect the same, for process would have to be served on some such officer, even if the suit were in such artificial name. It is also urged that the several acts of parliament we have mentioned expressly declare that they shall not be held to constitute the corporate body a corporation. But whatever may be the effect of such a declaration in the courts of that country, it cannot alter the essential nature of a corporation or prevent the courts of another jurisdiction from inquiring into its true character, whenever that may come in issue. It appears to have been the policy of the English law to attach certain consequences to incorporated bodies, which rendered it desirable that such associations as these could not become, technically, corporations. Such local policy can have no place here in determining whether an association, whose powers are ascertained and its privileges conferred by law, is an incorporated body. The question before us is, whether an association, such as the one we are considering, in attempting to carry on its business in a manner which requires corporate powers under legislative sanction, can claim, in a jurisdiction foreign to the one which gave those powers, that it is only a partnership of individuals. We have no hesitation in holding that, as the law of corporations is understood in this country, this association is a corporation, and that the law of Massachusetts, which only permits it to exercise its corporate function in that state, on the condition of a payment of a specific tax, is no violation of the federal constitution, or of any treaty protected by said constitution."

Sec. 19. **The corporate name.**— In whatever manner a corporation is created, it is necessary that it be designated by a particular name. If it is created by charter or special legislative act, the name is necessarily given, "for the name is as it were the very being of the constitution, without which they could not perform their corporate acts, for it is nobody to plead and be impleaded, to take and give, until it hath gotten a name."[2] The name of a corporation is the name of its baptism. Blackstone observes:

[1] Liverpool L. & G. Ins. Co. v. Comm., 10 Wall. 566. See, also, Paul v. Virginia, 8 id. 168.

[2] Bac. Abr., tit. Corp. Co.

"Where a corporation is erected a name must be given to it, and by that name it must sue and be sued, and do all legal acts, though a minute variation therein is not material. Such name is the very being of its constitution, and through it the will of the king that erects the corporation is expressed, and the name is the knot of its combination, without which it could not perform its corporate functions."[1] It is not only essential that it should have a particular name to distinguish it from other corporations, but also by which it may contract, and grant and receive property, and sue and be sued.[2] A corporation may acquire a name by prescription[3] and, it seems, may have more than one name,[4] but this is confined to corporations by prescription, and those constituted by charter, or under statutes, and have but one name at the same time, for the same purpose[5] unless so provided in the charter. It seems, however, that a corporation may be incorporated by one name and have power to sue and hold property by another.[6]

If a corporation is organized under general statutory provisions, it is usually provided that it shall have some name, as well as a location, and by such name only can it exercise the corporate functions; and the name given by the charter or special act, or assumed under general laws, cannot be changed by corporate action.[7] But where the constitution prohibits the creation of corporations by special enactments, this does not prohibit the changing of the name of a corporation by such legislation. In a recent case in California, involving this question it was held, that the mere changing of the name of a corporation was not the creation

[1] 1 Bl. Com. 474. "Every corporation should have a name by which it should be known as grantor and grantee, and to sue and be sued, and do all legal acts. Such name is the very being of its constitution, the 'knot of its combination,' without which it could not perform its corporate functions." Smith's Mer. Law, 133.

[2] 1 Dill. on Corp., § 117; Walker on Am. Law, 224.

[3] Smith v. Plankroad Co., 30 Ala. 650; Dutch West India Co. v. Moses, 1 Strange, 614.

[4] All Saints' Church v. Lovett, 1 Hall (N. Y.), 191; Middlesex Husbandmen v. Davis, 3 Met. (Mass.) 133.

[5] Knight v. Mayor, 1 Ld. Raym. 80; Anon., 1 Salk. 102.

[6] Butler v. President of the College of Physicians, Cro. Cas. 256.

[7] 1 Dill. on Corp., §§ 119, 120. "Partnerships and simply joint-stock trading companies may be at liberty to change their name or style, yet after a company has been incorporated by a name set forth in the act of incorporation, such incorporated company has not the right nor the power to change its name." Id.; Regina v. Registrar, etc., 10 Ad. & El. (N. S.) 839.

of a corporation in the sense of the constitution; that it was no more the creation of a corporation than the changing of the name of a natural person is the begetting of a natural person, and that a change of name is not a change of being.[1]

But it is said the name may not only be expressed in the patent, but implied in the nature of the thing. As if the king should incorporate the inhabitants of Dale, with power to choose a mayor annually, though no name be given, yet it is a good corporation by the name of the mayor and commonalty.[2]

[1] Pacific Bank v. De Roe, 37 Cal. 538; Wilc. on Corp. 34; Episcopal Society v. Episcopal Church, 1 Pick. 372. But the mere fact of similarity in name without proof that the first company is likely to suffer injury thereby, is not sufficient to justify a court of equity in restraining the latter company from using such name. London and Provincial Law Association Society v. London Provincial Joint-Stock Life Ins. Co., 11 Jur. 938. A change of name does not necessarily involve a change of the identity of the corporation. Girard v. Philadelphia, 7 Wall. 1. In a recent case in Tennessee it was held that a court of equity may, upon objection being made to the organization of a corporation by a specific name, on the ground that another corporation has already adopted the proposed name, or one so near like it as to lead to confusion, requires a sufficient modification of it as to obviate the objection. *Ex parte* Walker, 1 Tenn. Ch. 97. See, also, Newby v. Oregon, etc., R. Co., Deady (U. S. C. C.), 609; Holmes v. Holmes Man. Co., 37 Conn. 278. Although the name of a corporation has been changed by an act of the legislature, yet if it continues to conduct its business in its original name, and otherwise exclusively uses such name, it may by usage retain and regain its original name and sue and be sued thereby. Alexander v. Berney, 28 N. J. Eq. 90. As to the sufficiency of a name under the Indiana statute of May 12, 1852, see Naber v. Bright, 32 Ind. 69. A corporation may acquire a name by usage. Smith v. Plankroad Co., 30 Ala. 650. A mere change of name by the legislature does not affect the rights of third persons. Rosenthal v. Madison, etc., R. Co., 10 Ind. 359. A corporation may be known by one name by prescription and one by grant; but where there is more than one grant the last grant will take the place of the others. Knight v. Wells, 1 Ld. Raym. 80; Anonymous, 3 Salk. 102; Manufacturing Company v. Davis, 14 Johns. 238; Middlesex, etc., v. Davis, 3 Metc. 133; Trustees, etc., v. Peaslee, 15 N. H. 317.

"The name of incorporation," says Sir Edward Coke, "is a proper name or name of baptism; and therefore when a private founder gives his college or hospital a name, he does it only as god-father, and by that same name the king baptizes the corporation. But though the name of a corporate body is compared to the Christian name of a natural person, yet the comparison is not in all respects perfectly correct. A Christian name consists in general of a word, as Oliver or Robert, in which the alteration or omission of a single letter may make a material alteration in the name. The name of a corporation frequently consists of several words, and an omission or alteration of some of them is not material." 1 Com. Dig., tit. Franchise, F. 9.; 10 R. 29 b.; Smith's Mer. L. 133; Bac. Abr., tit. Corp.; 1 Kyd on Corp. 227.

In Missouri it has recently been held that after the changing of a name of a corporation for convenience, where it continues the same business with the same officers, it is responsible under the new name for all its previous debts Dean v. La Motte Lead Co., 59 Mo. 523.

[2] Anon., 1 Salk. 191; 10 Co. 32. If a note or other obligation is executed to a corporation by a name differing from the corporate name, suit may be brought thereon by the corporation in its true name, by alleging that it is the party to whom the obligation was

SEC. 20. **The location of corporation.**— The location of corporation should, in all cases, be designated. The legal existence of a corporation is confined to the territory of the sovereignty creating it; and it is held that it cannot lawfully meet and act in a corporate capacity, outside the boundaries of the state in which it was created.[1] But this rule in reference to meetings does not apply to directors, or other agents and officers of the company who may assemble or transact business.[2] But corporate meetings will constitute the subject of a subsequent chapter, where it will be fully considered. A corporation should be constituted of some place, and it has no legal existence outside of the territory of the sovereignty by which it was created.[3] But its legal residence is not necessarily confined to the locality of its principal office of business, but may be anywhere within the territorial limits of the state.[4] And a corporation may, through its agents, transact business and enjoy corporate privileges in other states. It may, byt he comity of states, carry on its lawful business, acquire, hold and transfer property in any of the states or territo-

made. African Society v. Varick, 13 Johns. 38; Trustees, etc., v. Reneau, 2 Swan (Tenn.), 94; Fort Wayne v. Jackson, 7 Blackf. (Ind.) 36; Thatcher v. West River National Bank, 19 Mich. 196. In Hammond v. Shepard, 29 How. Pr. (N. Y.), 188, an objection that the promise sued on was to the "New York Central College," when the *true* name was the "New York Central College Association," was held to be obviated by proof that the college was known by both names. See, also, Coulter v. Trustees, etc., 29 Md. 69. In Johnson v. Indianapolis, 16 Ind. 227, the general law authorized a town or city to adopt its provisions as a charter, and a city having done this, it was held that it was authorized to retain its former name, and would be presumed to have done so. A deed made to a corporation by a name differing from its true one may be sued in its true name, it being averred in the complaint that the deed was intended for it. North-western Distillery Co. v. Brant, 69 Ill. 658.

If a corporation, sued by a wrong name, appears and answers to the suit without objection, the defect is cured. Virginia, etc., S. Nav. Co. v. U. S., Taney (U. S. C. C.), 418.

[1] Miller v. Ewer, 27 Me. 506; McCall v. Byram Manuf. Co., 6 Conn. 428; Bank of Augusta v. Earle, 13 Pet. 519; Barnum v. Blackstone Canal Co., 1 Sumn. 47; Runyon v. Lessee, etc., 14 Pet. 129; Day v. Newark India Rubber Co., 1 Blatchf. 628; Marshall v. The Baltimore, etc., R. R. Co., 16 How. 314; The Covington Draw Bridge Co. v. Shepherd, 20 id. 232; 1 Redf. on Rail. 56, 57.

[2] Wood Hydraulic, etc., Co. v. King, 45 Ga. 34; McCall v. Byram Manuf Co., 6 Conn. 428.

[3] See, also, Bank of Augusta v. Earle, 13 Pet. 519; Miller v. Ewer, 27 Me. 509; Farnum v. Blackstone Canal Co., 1 Sumn. 47; Runyon v. Lessee, 14 Pet. 129; Covington Draw-Bridge Co. v. Shepherd, 20 How. 232; Day v. Newark, etc., Co., 1 Blatchf. (C. C.) 628; McCall v. Byram Manuf. Co., 6 Conn. 428.

[4] Glaize v. S. C. R. R. Co., 1 Strobh. (S. C.) 70.

ries, the same as individuals might do, and enforce its legal rights and obtain redress of its wrongs, and may sue and be sued on its contracts.[1]

Sec. 21. **Words of incorporation in royal charters.**— Questions frequently arose in former times, as to the sufficiency of the language used in royal charters, to confer corporate powers and privileges. The words most commonly used for this purpose were "we create, erect, found and incorporate;" *creamus*, *erigimus*, *fundamus*, *incorporamus*. But while these words were commonly used to create corporations, it was held that they were not essential.[2] Questions of this kind can seldom arise in this country, where all our corporations are constituted such, by legislative acts, and usually under some general statute. These statutes provide for the incorporation of persons on their complying with the requirements of the statutes. And where no special powers are conferred by the statutes, the organization would undoubtedly secure the ordinary common-law powers, franchises and incidents of a corporation. And under the mode of incorporation by legislative authority there can seldom arise any question requiring any application of the English doctrine of incorporation by implication.[3] "It is not necessary," observes Mr. Kyd, "that the charter should expressly confer those powers, without which a collective body of men cannot be a corporation, such as the power of suing and being sued, and to take and grant property; though powers are, in general, expressly given."[4] And if the name should be omitted in the charter, still, if from its language, or the nature of the thing granted, this could be ascertained, it would be sufficient to constitute a corporation, by the name thus indicated.[5] And where an act of the legislature of Arkansas merely

[1] Ducat v. The City of Chicago, 48 Ill. 172; Cowell v. Colorado Springs Co., 100 U. S. 55.

[2] The case of Sutton's Hospital, 10 Coke, 27a, 28a, 29b, 30; 1 Kyd on Corp. 62; 2 Kent's Com. 276; 1 Roll. Abr., tit. Corp. F.; Denton v. Jackson, 2 Johns. Ch. 325.

[3] "If the king grants to a set of men to have *guildham mercatorium*, a mercantile meeting or assembly, this is alone sufficient to establish them forever." 1 Bl. Com. 474; 10 Rep. 30; 1 Roll. Abr. 513; Conservators of the River Tone v. Ash, 10 B. & C. 349. See, also, 2 Kent's Com. 276; Sutton Hospital, 10 Co. 27; Roll. Abr., tit. Corp. F.; Dyer's R. 100.

[4] 1 Kyd on Corp. 63. See, also, Case of the Borough of Yarmouth, 2 B. & G. 292; Poor, etc., v. Sears, 22 Pick. 122; 1 Dill. on Corp., § 21.

[5] Trustees, etc., v. Parks, 10 Me. 441; School Comm'rs v. Dean, 2 Stew. & Port. (Ala.) 190.

provided that a bank should be established, without other incorporating words, but it also provided for a certain number of directors, and the usual banking powers were conferred upon them, it was held that the directory was incorporated by implication, and that they possessed the ordinary powers of a corporate body.[1] It may be affirmed, as a general principle, that where rights, franchises and powers are granted by a competent authority to a body or association of persons, and the exercise of these cannot be enjoyed, unless they are considered as a corporate body, they will be considered as such by implication, although no corporate powers are expressly granted.[2]

SEC. 22. **Common-law incidents of a corporation.**— The common-law incidents of a corporation are perpetual succession; and the right to sue and be sued in the corporate name; to plead and be impleaded; to grant and receive property; to purchase lands and hold them for the benefit of themselves and their successors; to have a common seal; and to make by-laws for the regulation and government of the affairs of the corporation.[3]

SEC. 23. **Acceptance of the grant.**— The acceptance of the charter or act, or the provisions of the general statutes providing for incorporation, is necessary in order to create a private corporation. In this respect a private corporation differs from a public one, as we shall hereafter more particularly notice.[4] A charter or legis-

[1] Mahony v. Bank of Arkansas, 4 Ark. 620; Murphey v. Bank of Arkansas, 2 Engl. (Ark.) 57; Woodruff v. Attorney-General, 8 id. 236; 1 Kyd on Corp. 63; Falconer v. Campbell, 2 McLean (C. C.), 195.

[2] Stebbins v. Jennings, 10 Pick. 187; Commonwealth v. Westchester R. R. Co., 3 Grant's (Penn.) Cas. 200; New Boston v. Dunbarton, 15 N. H. 201. But a corporation created by statute can exercise no powers except those expressly given or necessarily implied. Perrine v. Chesapeake, etc., Canal Co., 9 How. 182. The construction of the charter must be such as would best carry into effect the will of the legislature. Chesapeake, etc., Canal Co. v. Key, 3 Cranch (C. C.), 599. The contract between the government and a corporation created by its charter is to be construed upon the same principles which apply to contracts between individuals. State v. Noyes, 47 Me. 189. But where the rights of individuals, in the lawful enjoyment of their property, is involved, in the determination of corporate claims, the rights of corporations under their charters are not to be extended by implication. Auburn, etc., R. R. Co. v. Douglass, 9 N. Y. 444. See, also, Bank of Pennsylvania v. Commonwealth, 19 Penn. St. 144.

[3] 1 Bl. Com. 475; 2 Kent's Com. 277; Kyd on Corp. 13, 69, 70.

[4] See *post*, chap. 3. The king cannot incorporate a body of men without their assent. Until his charter has been accepted, it is inoperative. When once accepted, the acceptance is irrevocable. The acceptance must be by

lative act of incorporation is usually a mere offer or tender of the corporate privileges contained in it, or if no privileges are specified, then of the common-law powers and immunities, and the common-law incidents of corporations. The sovereign authority cannot compel persons to become a private corporation. They can only become such by their voluntary consent. But this consent, as we shall have occasion hereafter to consider, may be inferred from their acts.[1] A charter or act of incorporation, for private purposes and personal objects, if accepted, becomes a contract between the parties accepting and the state, and an offer of corporate privileges, on the one side, must be accepted on the other, in order to give the contract full force and virtue. This doctrine is established by the uniform current of decisions of courts of highest authority, not only in this country but in England. In the Dartmouth college case, the court say: "Dr. Wheelock, acting for himself, and for those who, at his solicitation, had made contributions to his school, applied for this charter, as the instrument which should enable him and them to perpetuate their benevolent institution. It was granted. An artificial immortal being was created by the crown, capable of receiving and distributing forever, according to the will of the donors, the donations which should be made to it."

After a charter has been accepted, it is within the power of the legislature to amend it in every respect, so that it does not impair any vested right, and in that event the corporation is bound by the amendment, and if it continues business after its adoption it is presumed that it accepted it, and no other proof of acceptance is necessary.[2] The rule is, that when the powers of a corpo-

those to whom it is addressed; and it is held that a valid acceptance may be made by a majority of the grantees. The charter must be accepted *in toto*, or not at all, for there can be no partial acceptance without the consent of the crown, which must be shown by matter of record. Dill. on Corp., § 15.

[1] 2 Kent's Com. 277; Charles River Bridge v. Warren Bridge, 7 Pick. 344; Bank of United States v. Dandridge, 12 Wheat. 70. See, also, Goddard v. Pratt, 16 Pick. 412; Green v. Seymour, 3 Sandf. Ch. 285; York & Co. v. Regina, 18 Eng. L. & E. 199; Ellis v. Marshall, 2 Mass. 269; Lincoln v. Richardson, 1 Me. 79; Fire Department, etc., v. Kipp, 10 Wend. 266; Falconer v. Campbell, 2 McLean (C. C.), 196; Dartmouth College v. Woodward, 4 Wheat. 518.

[2] Cincinnati, etc., R. R. Co. v. Cole, 29 Ohio St. 126; Talladega Ins. Co. v. Landers, 43 Ala. 115; Logan v. McAllister, 2 Del. Ch. 176.

ration are enlarged or curtailed by the legislature without providing any mode for their acceptance, the exercise of such powers by it is sufficient evidence of acceptance, and this rule applies equally in a case where the powers are conferred by general law, which is declared applicable to any corporation that may accept its provisions.[1] So, too, the organization of a company under a charter is sufficient evidence of its acceptance. Indeed, exercising the privileges granted is conclusive evidence of the fact of acceptance.[2]

SEC. 24. **Mode of acceptance.**— The charter or act may be accepted by a vote of a majority of the corporators;[3] but such direct action is not essential. If the persons or association to whom a grant of corporate privileges is tendered proceeds to act under it, this is an acceptance, and the contract, between the state and the corporators, becomes complete. If the persons have applied for a charter, the offer of it to them is said to be *in fieri*, and they may still accept or refuse it.[4] Although the secretary may be required to keep a record of the proceedings of meetings of the stockholders or members, and of the directors, it is not necessary that a record be made showing an acceptance of the grant, but acceptance may be inferred from the acts of its agents.[5]

If certain acts are required to be done by corporators under the provisions of either a special or general act, then, unless those acts are done, the corporation cannot be considered as in being.[6] But if such acts are done by the persons intended to be bene-

[1] Goodin v. Evans, 18 Ohio St. 150.

[2] Logan v. McAllister, *ante;* Talladega Ins. Co. v. Landers, 43 Ala. 115; Hope, etc., Ins. Co. v. Beekman, 47 Mo. 93; Kenton County v. Bank Lick Turnpike Co., 10 Bush (Ky.), 529.

[3] Lincoln, etc., Bank v. Richardson, *supra;* Commonwealth v. Jarrett, 7 S. & R. 461; Dartmouth College v. Woodward, *supra.*

[4] Charles River Bridge v. Warren Riv. Bridge, 7 Pick. 344; State v. Dawson, 16 Ind. 40.

[5] Taylor v. Griswold, 14 N. J. L. 223; Fairfield Turnpike Co. v. Thorp, 13 Conn. 173; Rex v. Ashwell, 12 East, 22. See, also, Rex v. Westwood, 4 B. & C. 786.

It is not necessary that the records of a corporation should show a formal acceptance of the act. Russell v. McLellan, 14 Pick. 63. See, also, Simrall v. Mutual Ins. Co., 40 Mo. 27; Taylor v. Newberne, 2 Jones' (N. C.) Eq. 141; Hudson v. Carman, 41 Me. 84; Mead v. Keeler, 24 Barb. 20; Zabriskie v. C., C. & C. R. Co., 23 How. (U. S.) 381.

[6] Fire Dept. v. Kipp, 10 Wend. 266; 2 Kent's Com. 293; 1 Redf. on Railw. 64; Minor v. The Mech. Bk., 1 Pet. 46; Burt v. Farrar, 24 Barb. 518.

fited or incorporated, the corporation is complete, and the duties imposed by the act will attach to the corporation.[1]

Sec. 25. If they have held meetings, adopted by-laws, elected officers, or done other corporate acts, this would be evidence of acceptance of the grant, though no formal acceptance of record could be shown. And the doing of acts by persons acting in the usual way of corporate agents, and which would not be consistent except upon the theory of acceptance, would be evidence of it.[2] It has been held in Michigan that a person who has dealt with a body professing to act as a corporation as such, cannot question its corporate existence, for the purpose of charging its members with liability as partners,[3] unless, perhaps, he has been misled by the acts and representations of the persons composing it.

Sec. 26. **Acceptance must be unconditional.**— If a charter is offered, it is only necessary, as a general rule, that it be accepted by a majority of the persons mentioned as corporators.[4] But it must, in all cases, if accepted, be taken unconditionally; and by accepting the privileges conferred, the corporators will be required to perform the conditions imposed by it. Nor can the corporators claim the benefits of the charter unless they perform all the precedent conditions required by it in order to constitute the corporation. These conditions precedent are any thing which, by the express provisions of the charter or act, are required to be performed by the persons claiming the benefit of it, as a preliminary to incorporation, or the foundation for the exercise of the powers

[1] Riddle v. Proprietors, etc., 7 Mass. 187; Goshen Turnpike Co. v. Sears, 7 Conn. 86; Shortz v. Unangst, 3 W. & S. 45; Bank of U. S. v. Dandridge, 12 Wheat. 70. The mere passage of an act of incorporation does not make the contract, as it may be repealed prior to a full acceptance by the corporation. Mississippi Society v. Musgrove, 44 Miss. 820; S. C., 7 Am. Rep. 723.

[2] Crump v. U. S. Mining Co., 7 Gratt. 352; Cahill v. Kalamazoo Mutual Insurance Co., 2 Mich. 124; Bac. Abr., tit. Corp. Acceptance of an act of a legislature may be inferred from the exercise of corporate powers, or other unequivocal acts on its part, but this cannot prevail against direct proof. Lyons v. O. A. & M. R. Co., 32 Md. 18; Narragansett Bank v. Atlantic Silk Co., 3 Metc. 282; Dedham Bank v. Chickering 3 Pick. 335; Penobscot Broom Co. v. Lamson, 16 Me. 224.

[3] Merchants' Bank v. Stone, 38 Mich. 779.

[4] Rex v. Amery, 1 T. R. 575; Penobscot Bank v. Lamson, 16 Me. 224; Day v. Stetson, 8 Me. 365; Curry v. Railroad Co., Penn. St. (1868); Lyons v. Orange, etc., R. Co., 32 Md. 18.

and privileges of the grant.[1] The exercise of a power granted by an amendment of the charter of a corporation is evidence of an acceptance of the amendment by the corporation.[2] And when a charter or amended charter is once accepted, no subsequent withdrawal of the corporators therefrom can affect the obligations imposed thereby.[3] And one who deals with a corporation acting under an amended charter, and in its amended name, cannot complain that the amendment has not been properly accepted.[4] A company, also, having accepted a charter, cannot insist that any provision therein was fraudulently obtained, but it is bound by all of its provisions.[5]

SEC. 27. **Acceptance under general laws.**— Where persons proceed to incorporate under general statutes enacted for this purpose, the signing of the preliminary articles of association, or the certificate required by the statute, and a compliance generally with the requirements of the law would undoubtedly be deemed an acceptance of the grant and the conditions of it.[6] "Acceptance of a charter," says the court, in a Delaware case,[7] "is neces-

[1] Lyons v. Orange, etc., R. Co., *supra;* Alton, etc., R. Co. v. Dietz, 50 Ill. 210; S. C., 1 With. Corp. Cas. 439; 1 Redf. on Rail., § 18, p. 64 *et seq.*, and notes.

[2] Wetumpka, etc., R. Co. v. Bingham, 5 Ala. 658; Palfrey v. Paulding, 7 La. Ann. 363; Bangor, etc., R. Co. v. Smith, 47 Me. 34. In Hope, etc., Ins. Co. v. Beekman, 47 Mo. 93, in an action by a mutual insurance company against a person upon a premium note given prior to a change in its charter, it was held unnecessary for the company to prove the acceptance of the amendment by it, and that its assent thereto would be inferred from acts and omissions inconsistent with any other hypothesis. See, also, Hope, etc., Ins. Co. v. Koeller, 47 Mo. 129. "It is true," says the court, in Talladega Ins. Co. v. Landers, 43 Ala. 115, "that the charter of a corporation must be accepted; but in cases of private corporations created for individual benefit, the presumption is that they are created at the instance and request of the parties to be benefited thereby, and, consequently, are accepted by them. If, therefore, they are found exercising the privileges granted, it will be almost conclusive evidence of acceptance." Heath v. Silverthorn Co., 39 Wis. 146; State v. Sibley, 25 Minn. 387.

[3] Busey v. Hooper, 35 Md. 15. See, also, Basshor v. Dressel, 34 Md. 503.

[4] Eppes v. Mississippi, etc., R. Co., 35 Ala. 33. And a majority may adopt an amendment. Sprague v. Illinois Riv. R. Co., 19 Ill. 174.

[5] Bushwick, etc., Co. v. Ebbets, 3 Edw. Ch. 353.

[6] Mokelumne, etc., R. Co. v. Woodbury, 14 Cal. 424; Field v. Cooks, 16 La. Ann. 153; Ashtabula, etc., R. Co. v. Smith, 15 Ohio St. 328; Thompson v. Candor, 60 Ill. 244; Hunt v. Kansas, etc., Bridge Co., 11 Kans. 412; Lyons v. Orange, etc., R. Co., *supra;* Hope Ins. Co. v. Beekman, 47 Mo. 93, where it was held that the assent of the corporation to amendments might be inferred from acts or omissions inconsistent with any other hypothesis. See, also, Hope Ins. Co. v. Koeller, id. 129.

[7] Logan v. McAllister, 2 Del. Ch. 176.

sary to bring it into operation. But an express or formal declaration of acceptance is not required. *Organizing and acting under a charter* is sufficient evidence of acceptance." [1]

We shall hereafter consider the nature and character of the accepted charter or corporate contract of a corporation instituted for private purposes, and illustrate the distinctions between them and public corporations.

Sec. 28. **The term "constating instruments."** — It will be apparent, from what has been said in relation to private corporations and the modes by which they may be created, and especially of the manner in which they are usually constituted in this country, that not only statutory provisions, but various instruments in writing are required. These means and instruments for effecting incorporation may be numerous: consisting of statutes, articles of association, deeds of settlement, by-laws and notices; some of which are usually required to be recorded, and others published. The convenience of using some short term, to express all of these fundamental acts and instruments, in a work of this character, will be manifest. We, therefore, adopt for this purpose the term "constating instruments." [2]

Sec. 29. **Organization of a corporation; how proved.** — The life of a corporation dates from the period of its organization, and not

[1] See, also, Goodin v. Evans, 18 Ohio St. 150.

[2] On this subject, Mr. Brice says: "It may here be observed, that the expression 'constating instruments,' will very generally be employed in this work to signify the document or collection of documents which fix the constitution of any corporation. These documents are very various, charters, letters-patent, statutes of the founder, acts of parliament, by-laws, deeds of settlement, articles of association, and not unfrequently they will be very numerous and lengthy, the original muniments having been added to or modified by many subsequent proceedings, resolutions and the like. Therefore it will be far more convenient to have one single term always denoting the same general fact, but varying in its exact meaning with the circumstances." Brice's Ultra Vires, 38.

The term "constitution," observes Mr. Redfield, "as applied to corporations, is susceptible of being used in very different senses. It may imply nothing more than the charter or formal grant of corporate organization and powers by the sovereignty, or it may be applied to certain fundamental principles, declared by the corporators themselves, as the unalterable basis of the organization of the body; or if not wholly unalterable, not to be altered, except by the adoption and concurrence of certain formalities not likely to occur, except in regard to changes of very obvious necessity; or the term may be used to signify the constituent members, or different bodies of which the corporation is composed." 1 Redf. on Rail., § 17.

from the time when it begins to do business as such.[1] In other words, a corporation, as such, is put on foot, and imbued with corporate life, when the requisite steps have been taken to perfect its organization as a distinctive body. From that time it may sue or be sued in its corporate name, although no business has ever been done by it, and has a valid existence as an artificial person, for all the purposes for which it was created, within the scope of the powers conferred upon it by law, but prior to that time it has no existence. In order to perfect an organization, all the requirements of the charter, or of the statute under which it is organized, should be complied with, and the proper evidence thereof is the record of the organization.[2] It is under this rule that it is held that claims for money expended *before* its organization cannot be enforced against it *as a debt of the corporation* after it is organized. Prior to its organization it could not make any contract, because it had no existence;[3] and this rule applies where the statute requires that the articles of association shall be filed in a certain public office as a preliminary step, before entering upon the transaction of business; but in such case copies of the articles so filed, made by the proper officer, are competent evidence of its authority to do business as a corporation.[4] After a company has been in operation for several years as a corporation, without any question as to the regularity of its organization, its due organization will be presumed,[5] and where the organization is defective in any material respect, the legislature has power to cure the defect, so as to legalize its acts, *ab initio*.[6] And where the legislature, subsequent to the organization of a corporation, recognizes it as such, it is held that its organization is thereby validated.[7] The word "organized" or

[1] Hanna v. International Petroleum Co., 23 Ohio St. 622.

[2] Bowyer v. Giles, etc., Turnpike Co., 9 Gratt. (Va.) 109; Warner v. Daniels, 1 Woodb. & M. (U. S. C. C.) 90.

[3] Marchand v. Loan, etc., Association, 26 La. Ann. 389.

[4] Buffalo, etc., R. R. Co. v. Hatch, 20 N. Y. 157; Jones v. Dana, 24 Barb. (N. Y.) 395; Chamberlin v. Huguenot M'f'g Co. 118 Mass. 532.

[5] Chester Glass Co. v. Dewey, 16 Mass. 94; Agricultural Bank v. Burr, 24 Me. 256; Bank of the United States v. Lyman, 20 Vt. 666.

[6] Illinois, etc., R. R. Co. v. Cook, 29 Ill. 237; Goodrich v. Reynolds, 31 id. 490; Kanawha Coal Co. v. Kanawha, etc., Coal Co., 7 Blatchf. 391.

[7] Cayuga, etc., R. R. Co. v. Kyle, 64 N. Y. 185. An irregularity in the organization of a company cannot be taken advantage of by one dealing with the company. Frost v. Frostburg Coal Co., 24 How. (U. S.) 278. The directors of a corporation have no power to issue certificates of stock, for

"organization" as applicable to corporations ordinarily means the election of officers constituting the body complete for the transaction of business[1] and the performance of such other acts or conditions precedent as may be provided by law.[2] Even where the organization of a corporation is defective, if it was organized in good faith, it may be sustained as a *de facto* corporation where the question as to its regularity is only raised collaterally;[3] and the corporation itself is estopped from setting up its own want of corporate capacity, where it has claimed to act as such,[4] and upon

any purpose, for a less price than the sum fixed by the charter; shares so issued are void in the hands of the party receiving them. Sturges v. Stetson, 3 Phila. (Penn.) 304. And a purchaser of such stock, who has paid the consideration, is entitled to a rescission of the contract. Fosdick v. Sturges, 3 Phila. (Penn.) 312. The commissioners' book of subscriptions is *prima facie* evidence that the subscriptions were genuine, or made by persons duly authorized. And the fact that the defendant was appointed, by the stockholders, one of its managers, and acted as such, is *prima facie* evidence of an admission, on his part, of the existence of the corporation. Rockville and Washington Turnpike Road v. Van Ness, 2 Cranch (C. C.), 449.

[1] New Haven, etc., R. R. Co. v. Chapman, 38 Conn. 56.

[2] Where a corporation has gone into operation as such, and rights have been acquired under it, every reasonable presumption will be made in favor of its legal existence. Hagerstown Turnpike v. Cruger, 5 Harr. & J. (Md.) 122. But if a body acting as a corporation has *in fact* no legal existence as such, it will be treated as a partnership. Hill v. Beach, 12 N. J. Eq. 31.

[3] Ossippee Hosiery, etc., M'f'g Co. v. Canney, 54 N. H. 295; Swartwout v. Michigan, etc., R. R. Co., 24 Mich. 389; Aurora, etc., R. R. Co. v. Miller, 56 Ind. 88; Thompson v. Candor, 60 Ill. 244. In Walworth v. Brackett, 98 Mass. 98, three persons were named in an act as corporators, and one of them called a meeting of the subscribers to the capital stock for the purpose of organizing and electing the necessary officers, and the others made no objection thereto, and never made any claim to the exercise of the corporate powers. It was held that although the mode of organization was not in accordance with the requirement of the statute, yet as against all persons but the state, the organization was valid, and that after the corporation was so organized, and had elected its officers and carried on business as a corporation, it was too late to deny that the corporation ever had any legal existence. Blair v. Rutherford, 31 Tex. 465; Comm. v. Bakeman, 105 Mass. 53. In Barrett v. Mead, 10 Allen, 337, it was held that proof that a company had attempted to form an organization under the statutes of another state, and had transacted business as a corporation *de facto*, and that its certificates of shares contain a recital that it was organized under the general laws of that state, is sufficient, in the absence of any thing to control it, to authorize a jury to find that the company was duly incorporated, in a case in which the fact is only collaterally in issue. In Narragansett Bank v. Atlantic Silk Co., 3 Metc. (Mass.) 282, it was held not necessary to prove that a company had complied with the requirements of the statute in its organization, but that it was generally sufficient to give in evidence the act of incorporation and *the actual use of the powers and privileges of an incorporated company* under the name designated. See, also, Farmers & Mechanics' Bank v. Jenks, 7 Metc. (Mass.) 592.

[4] Dooley v. Cheshire Glass Co., 15 Gray, 494; Merrick v. Reynolds Engine & G. Co., 101 Mass. 381; Priest v. Essex Hat M'f'g Co., 115 id. 380.

the other hand it is held that a person who contracts with another *as a corporation* is estopped to deny the legal existence of such corporation.[1] *Prima facie*, in an action on a note given to a foreign corporation by their corporate name, the production of the note is sufficient evidence of the due organization of the corporation and its competency as such to do business, but not if the fact of organization is denied in the answer.[2] Thus in an action by the indorser of a note, payable to the "Continental Insurance Company," it was held sufficient *prima facie* to establish the legal existence of a corporation bearing that name,[3] and a writ in an action upon a bond which describes the plaintiffs as a corporation, the execution of the bond being proved, was held to afford *prima facie* evidence of the plaintiff's incorporation.[4] Where an action is brought by a corporation, and the answer denies the existence of such a corporation, the plaintiff is bound to prove its corporate existence as a fact,[5] and it seems that, where the declaration alleges that the plaintiff is a corporation, and the answer contains a general denial of each and every allegation in the plaintiff's declaration or complaint contained, that the plaintiff's incorporation is thereby put in issue,[6] but, unless put in issue by the answer or pleadings, it is treated as admitted, and cannot be questioned upon the trial.[7] The proper method of proving corporate existence is by the production of the act of incorporation or the articles of association, and proving the election of officers or the exercise of corporate powers thereunder,[8] but, where

[1] Worcester Medical Inst. v. Harding, 11 Cush. 285.

[2] Williams v. Cheney, 3 Gray, 215.

[3] Topping v. Bickford, 4 Allen, 120. A note made payable at "Hungerford National Bank" was held, in an action by the "Hungerford National Bank" thereon, not to afford conclusive evidence that the plaintiffs are a corporation, but as evidence of the fact which should be submitted to the jury. Hungerford National Bank v. Van Nostrand, 106 Mass. 559.

[4] Williamsburgh Ins. Co. v. Frothingham, 123 Mass. 391.

[5] Gott v. Adams' Ex. Co., 100 Mass. 320.

[6] Mosler v. Potter, 121 Mass. 89; Hebron Church v. Smith, 121 id. 90, n.

[7] Plymouth Christian Society v. Macomber, 3 Metc. (Mass.) 235.

[8] Chamberlain v. Huguenot M'f'g Co., 118 Mass. 532. A charter and user under it affords presumptive proof in the first instance of the legal existence of a corporation. People v. Bigler, Hill & Denio, 133. And are all that a corporation is called upon to prove, to establish its existence, in a litigation with individuals dealing with it. Jones v. Dana, 24 Barb. 395; Methodist, etc., Church v. Pickett, 19 N. Y. 482. The validity of its corporate existence can only be tested by proceedings in behalf of the people. Whether it has been properly organized or not, according to its charter, is a question that cannot be made col-

this cannot be conveniently done, proof of the exercise of corporate powers by the alleged corporation, under the corporate name, is *prima facie* sufficient,[1] and especially is this so if the act of incorporation or a certificate of association, certified by the proper officer, is produced.[2] If a corporation refuses to produce its books of record upon notice to do so, parol proof of its organization or election of officers and agents is admissible.[3]

laterally, but only by direct proceedings against the corporation. Wight v. Shelby Railroad Co., 16 B. Monr. 4.

So the determination of the board of commissioners appointed by the comptroller to make examination for that purpose, that an insurance company has the requisite amount of capital and premium notes, is conclusive as to the existence of the corporation, until that existence is impeached by such proceedings. Jones v. Dana, 24 Barb. 395.

The act of incorporation being in the case, it is competent, in order to prove the existence of the corporation, to show by parol that the corporators were acting under their charter and enjoying the franchises thereby granted to them. Wilmington and Manchester Railroad Co. v. Saunders, 3 Jones' L. 126.

The defendant, whom it is attempted to hold liable for a debt of a corporation which has been judicially recognized as duly organized under the act of 1811 and has acted as such over twenty years, and in which the defendant held stock till its dissolution, will not be heard to deny the legal incorporation of the company, in the action against him. Mead v. Keeler, 24 Barb. 20. It is not essential that the acceptance of a charter should appear on the records of a corporation. *It may be inferred from acts of the corporators, or of the corporation.* Taylor v. Newberne, 2 Jones' Eq. (N. C.) 141.

Evidence that it is reputed to be a corporation *and acts as such* has been held sufficient even in a case where a person was charged with issuing counterfeit bills on a reputed bank. State v. Pindal, 5 Harr. (Del.) 488.

[1] Hungerford Bank v. Van Nostrand, *ante;* Merchants' Bank v. Glendon Co., 120 Mass. 97; Topping v. Bickford, *ante.* In Anderson v. Kanawha Coal Co., 12 W. Va. 526, a deed of trust executed by a corporation, in which the due organization of the corporation was recited, was held admissible as evidence of the defendant's legal existence as a corporation.

[2] In Merchants' Bank v. Glendon Co., *ante*, the plaintiff brought an action describing itself as the Merchants' National Bank of Bangor, organized under the laws of the United States, and having its place of business in Bangor in the state of Maine. Its corporate existence being put in issue, in order to prove it, it produced a certificate of the comptroller of the currency that it had been duly organized, and the testimony of a book-keeper of a bank in Boston, that the Merchants' National Bank of Bangor did a banking business under that name, and that he had been in their banking-house in Bangor, and was well acquainted with the cashier, and that his own bank was in the habit of receiving remittances from the Merchants' National Bank of Bangor; and this was held sufficient to establish the existence of the plaintiff as a *de facto* corporation. See, also, to the same effect, Washington Co. Bank v Lee, 112 Mass. 521.

[3] Thayer v. Middlesex Ins. Co., 10 Pick. 326; Narragansett Bank v. Atlantic Silk Co., 3 Metc. (Mass.) 282.

CHAPTER III.

PRIVATE CORPORATIONS — NATURE AND CHARACTER OF.

SEC. 30. Distinction between public and private corporations.
SEC. 31. Legislative control of public corporations.
SEC. 32. Private corporations — doctrine in reference to legislative control over.
SEC. 33. Immunity does not exempt property from legislative control.
SEC. 34. Power of the legislature to regulate the charges of railroads.
SEC. 35. Ground on which legislative power is predicated.
SEC. 36. Reason for the exercise of such power.
SEC. 37. Legislative control over rate of charges by railroad companies.
SEC. 38. Subsequent grants do not impair the contract — construction of grants.
SEC. 39. Reservation of power in the legislature.
SEC. 40. Right to resume based upon misuse or abuse of its franchise.
SEC. 41. The power to resume cannot be exhausted.
SEC. 42. General statutes reserving the power.
SEC. 43. Amendments of charters.
SEC. 44. Repeal of charter.
SEC. 45. General implied powers of.
SEC. 46. Powers conferred or limited by statute.
SEC. 47. Corporate powers limited to the object of the grant.
SEC. 48. Distinctions between corporate and copartnership associations.

SEC. 30. **Distinction between public and private corporations.** — We have already referred to some of the characteristic differences between public and private corporations; but the character of this treatise demands a fuller consideration of the marked distinction between them, and of the character of the grants creating them; for important interests frequently depend on this distinction. We have said that public corporations were those instituted for public and political purposes only, and in which the citizens of the district or territory are supposed to have a common interest. The grant of such corporate privileges is generally made, and such corporations instituted, without the consent of the corporators or members. Public corporations may be imposed upon a people, *nolens volens;* and they do not par-

take of the nature of a contract between the state, and the parties becoming members of it, by the mere creation of the corporation. They are members solely and only by virtue of their residence within the territorial limits of the locality, that is constituted the public or municipal corporation by the sovereign authority.[1] All private corporations, however, are, in a certain sense, of public interest. In fact, the conferring of private and particular powers and franchises upon a society of persons, and giving them privileges not commonly enjoyed without such grant, and thereby surrendering to the corporate body authority which otherwise must remain in the sovereignty of the state, can only be justified on the ground of the public benefit to be derived from the grant, and that the state in this way will be fully indemnified for the surrender or transfer of its supreme rights, in respect to the authority conferred.[2]

Sec. 31. **Legislative control of public corporations.** — We have said that public corporations are such as are established for public and

[1] "The rule which applies to private corporations, that the incorporating act is ineffectual to constitute a corporate body until it is assented to or accepted by the corporators, had no application to statutes creating municipal corporations. * * * All who live within the limits of the incorporated district are bound by them, and can only withdraw from the corporation by removal." 1 Dill. on Corp., § 23.

[2] Providence Bank v. Billings, 4 Pet. (U. S.) 514; Charles River Bridge v. Warren Bridge, 11 id. 544; Richmond, etc., R. Co. v. Louisa., etc., R. Co., 13 How. (U. S.) 71; Bradley v. New York, etc., R. Co., 21 Conn. 294; Chenango Bridge Co. v. Binghamton Bridge Co., 27 N. Y. 87; State v. Krebs, 64 N. C. 604; Pennsylvania R. Co. v. Canal Com., 21 Penn. St. 22; Mills v. Williams, 11 Ired. 558. In this case the court, by Parsons, J., say: "The purpose in making all corporations is the accomplishment of some public good. Hence, the division into public and private has a tendency to confuse and lead to error in investigation; for unless the public are to be benefited it is no more lawful to confer exclusive rights and privileges upon an artificial body than upon a private citizen. The substantial distinction is this: Some corporations are created by the mere will of the legislature, there being no other party interested or concerned. To this body a portion of the power of the legislature is delegated, to be exercised for the public good, and subject at all times to be modified, changed or annulled. Other corporations are the result of contract. The legislature is not the only party interested; for although it has a public purpose to be accomplished, it chooses to do it by the instrumentality of a second party. These two make a contract. The exception of benefit to the public is the moving consideration on one side; that of expected remuneration for the outlay is the consideration on the other. It is a contract, and, therefore, cannot be modified, changed or annulled, without the consent of both parties. Counties are an instance of the former, railroad and turnpike companies of the latter, class of corporations." Penn. R. Co. v. Canal Com., 21 Penn. St. 22.

municipal purposes, or such as are constituted for civil and local government. Incorporations of this character constitute no contract between the state and the corporation. The powers and franchise thereby conferred are always subject to the right of the authority conferring them, to resume or modify and control them at pleasure. The power of the legislature over such corporations is only restrained in certain cases by constitutional limitations. It may change or abolish them, as it may deem the public interest requires.[1]

And it may be affirmed as a principle, based upon the soundest public policy, that where public or municipal corporations are created, the special powers conferred upon them for local government are not vested rights as against the state, but may be changed at pleasure by the legislature. "Otherwise," in the language of Justice McKEAN, "there would be numberless petty governments existing within the state and forming part of it, but independent of the control of sovereign power."[2] And such powers may be abolished, qualified, changed or limited, either by a special act for that purpose, or by general provisions relating to all such corporations.[3] On this subject the supreme court of Louisiana say: "The government of cities and towns, like that of the police jury of parishes, forms one of the subdivisions of internal administration of the state, and is absolutely under the control of the legislature. The laws which establish and regulate municipal corporations are not contracts, but ordinary acts of legislation, and the powers they confer are nothing more than mandates of the sovereign power; and those laws may be repealed or altered at the will of the legislature, except so far as the repeal

[1] Allen v. McKeen, 1 Sumner, 276 (opinion by STORY, J.); People v. Morris, 13 Wend. 325, in which NELSON, J., said: "It is an unsound and even an absurd proposition that political power conferred by the legislature can become a vested right as against the government, in any individual or body of men."

A marked distinction between public and private corporations at common law was the difference in the individual liability of the corporators. In private corporations they were not liable for corporate debts, but the property of the members of public corporations was liable to be taken to satisfy a judgment against the corporate body. Adams v. Wicasset Bank, 1 Me. 364; Brewer v. New Gloucester, 14 Mass. 216; Marcy v. Clark, 17 id. 333; Comm. v. Blue Hill Turnpike Co., 5 id. 420; Atwater v. Woodbridge, 6 Conn. 223.

[2] State Bank v. Knoop, 16 How. (U. S.) 369.

[3] Id. See, also, Sloan v. State, 8 Blackf. (Ind.) 361.

or change may affect the rights of third persons acquired under them." [1]

As public corporations are not strictly embraced within the scope of this treatise, we have only alluded to them for the purpose of pointing out some of the fundamental distinctions between them and private ones.

SEC. 32. **Private corporations — doctrine in reference to legislative control over.**— The doctrine, as to the right of the legislature of the state to affect the corporate rights of public corporations, has no application at common law to private corporations. The acceptance of the charter or act of incorporation for private purposes constitutes a contract, which thereby becomes irrevocable between the parties thereto, viz.: the state and the corporation. There is no necessity for private parties, intended to be benefited by legislative acts of incorporation, to accept the same. They cannot be compelled to accept an offer of corporate privileges. But,

[1] Police Jury v. Shreveport, 5 La. Ann. 661. See, also, State Bank v. Navigation Co., 3 id. 294; Reynolds v. Baldwin, 1 id. 162; Haynes v. Municipality, 5 id. 760; Board v. Municipality, 6 id. 21; East Hartford v. Hartford Bridge Co., 10 How. (U. S.) 511; Trustees v. Tatman, 13 Ill. 30, in which WOODBURY, J., remarks in reference to municipal corporations: "They are allowed privileges or property only for public purposes. The members are not shareholders nor joint partners in any corporate estate which they can sell or devise to others, or which can be attached or levied upon for their debts. Hence, generally, the doings between them and the legislature are in the nature of legislation rather than a compact, and subject to all the legislative conditions named, and therefore to be considered as not violated by subsequent legislative changes." See, also, Ten Eyck v. Canal Co., 18 N. J. L. 200; Hanson v. Vernon, 27 Iowa, 28; Regents, etc., v. Williams, 9 Gill & J. (Md.) 365; Norris v. Trustees, etc., 7 id. 7; Patterson v. Society, etc., 24 N. J. L. 385; Baltimore v. Board of Police, 15 Md. 376; Penobscot Boom Corporation v. Lamson, 16 Me. 224; Yarmouth v. North Yarmouth, 34 id. 411; North Yarmouth v. Skillings, 45 id. 133; Girard v. Philadelphia, 7 Wall. 1. As to the distinction between public and private corporations, see People v. Wren, 5 Ill. 273; Holliday v. People, 10 Ill. 216; Richland County v. Lawrence County, 12 Ill. 8; Gutzweller v. People, 14 id. 145; State v. St. Louis County Court, 34 Mo. 564; Lloyd v. Mayor, etc., of New York, 5 N. Y. 369; Lowber v. Mayor, 7 Abb. Pr. 248; Aurora v. West, 9 Ind. 74; Plymouth v. Jackson, 15 Penn. St. 44. Public corporations are such as are created for political purposes, but a corporation is not public merely because its object is of a public character. Tinsman v. Bel. Del. R. R. Co. 26 N. J. L. 148; Marietta v. Fearing, 4 Ohio, 427; State v. Mayor, etc., 24 Ala. 701; Governor v. McEwen, 5, Humph. 241; Grogan v. San Francisco, 18 Cal. 590; Darlington v. Mayor, etc., 31 N. Y. 164; Saving Fund Society, etc., v. Philadelphia, 31 Penn. St. 175; Philadelphia v. Field, 58 id. 320; Erie v. Canal Co., 59 id. 174; Dunmore's Appeal, 52 id. 374; Blanding v. Burr, 13 Cal. 343.

when once accepted, the rights of the corporation under the same cannot be prejudiced by any subsequent legislation, unless the right so to do has been reserved by the creating charter or act, or is reserved by some general law in existence when the charter was granted, which is applicable to all corporations formed after its passage,[1] in which case the power to amend or repeal exists, although the charter contains no words in express terms so declaring.[2] But this is subject to the restriction that no such amendment can be made which defeats or substantially impairs the object of the grant or any vested rights under it.[3]

The contract thus constituted comes within the meaning of the federal constitution, inhibiting the passage of any law impairing the obligation of contracts. And unless there is a reservation of the right to resume or amend a charter or act, contained in it, or in some general law, or in the constitution of the state, thus making it a part of the terms of the contract between the state and the corporators, it comes within the constitutional provision, which secures contracts from being impaired by subsequent legislation.[4] The charter, although a law, is, in such cases, something more than a law; it is also a contract between the government and the corporation, and the legislature cannot alter, repeal, or in any manner impair, the rights or privileges conferred without the consent of the corporation.[5] This rule extends even to the curtailment of

[1] State v. Person, 32 N. J. L. 134; affirmed, id. 566; State v. Miller, 29 id. 369; State v. Douglass, 34 id. 83.

[2] Id.

[3] Inland Fishery Comm'rs v. Holyoke Water Power Co., 104 Mass. 446; Holyoke Co. v. Lyman, 15 Wall. 500; Thornton v. Marginal Freight Railway, 123 Mass. 32; Worcester v. N. & W. R. R. Co., 109 id. 103.

[4] Mechanics' Bank v. Debolt, 1 Ohio St. 591; State v. Southern, etc., R. Co., 24 Tex. 80; Const., art. 1, § 10.

[5] Young v. Harrison, 6 Ga. 130; Maysville Turnpike Co. v. How, 14 B. Monr. 429; Commercial Bank v. State, 14 Miss. 599; New Orleans, etc., R. Co. v. Harris, 27 id. 517; Backus v. Lebanon, 11 N. H. 19; Zabriskie v. Hackensack, etc., R. Co., 18 N. J. Eq. 178; Bank of State v. Bank of Cape Fear, 13 Ired. (S. C. L.) 75; Commonwealth v. Cullen, 13 Penn. St. 133; Dartmouth College v. Woodward, 4 Wheat. (U. S.) 518. The charter of a private corporation is something more than a law, in that it contains stipulations which are terms of contract between the state as one party and the corporation as the other, and is as much removed from the modifying influence of the legislature as would be contracts between two private parties. Flint v. Woodhull, 25 Mich. 99. Allen v. Buchanan, 9 Phila. 283; Mowrey v. Indianapolis, etc., R. Co., 4 Biss. (U. S. C. C.) 78. Where a corporation was established by the concurrent action of *two* states, it was held to be not only a contract between the states and the company, but also between the two states, and, therefore, not subject to interpretation by the local usages of either, and that

the powers of the state in reference to the exercise of what are termed its police powers, which enables it to prohibit all things hurtful to the peace, welfare, or comfort of society, and even in this respect the state is subject to constitutional limitations, and when applied to corporations they must not be in conflict with any of the provisions of the charter.[1] So, too, while the state has the power to impose taxes upon property, yet it is within the province of the legislature to exempt property from taxation, or to stipulate that a particular rate shall be imposed upon certain property, and if, in granting a charter to a corporation, it provides that it shall pay a certain per cent upon each share of its stock in lieu of all other taxes, the state has no power by a subsequent law to impose additional taxation upon the stock of the company.[2] In the case of *Dartmouth College* v. *Woodward*, this question was fully considered by the supreme court of the United States, after the most elaborate arguments by eminent counsel.[3] Chief-Justice MARSHALL, upon this question, remarks: "The objects for which a corporation is created are universally such as the government wishes to promote. They are deemed beneficial to the country, and this benefit constitutes the consideration, and, in most cases, the sole consideration of the grant. * * * If the advantages to the public constitute a full consideration for the faculty it gives, there can be no reason for exacting a further compensation, by claiming a right to exercise over this artificial being a power which changes its nature, and touches the fund, for the security and application of which it was created. There can be no reason for implying in a charter given for a valuable consideration, a power (to change or amend it) which is not only not expressed, but is in direct contradiction to

the same construction must be made in both. Cleveland, etc., R. R. Co. v. Speer, 56 Penn. St. 325. Upon the general proposition see Hamilton v. Keith, 5 Bush, 458; Sala v. New Orleans, 2 Woods (U. S. C. C.), 188; Farrington v. Tennessee, 95 U. S. 679; State v. Mayor of Newark, 35 N. J. L. 157; Mobile, etc., R. R. Co. v. Moseley, 52 Miss. 127; Berthin v. Crescent City, etc., Slaughter-House Co., 28 La. Ann. 210; St. Louis v. Manufacturers' Sav. Bank, 49 Mo. 574.

[1] Lake View v. Rose Hill Cemetery, 70 Ill. 191.

[2] Farrington v. Tennessee, 95 U. S. 679; Scotland County v. Missouri & N. R. Co., 65 Mo. 123.

[3] 4 Wheat. 518.

its express stipulations. * * * This is plainly a contract to which the donors, the trustees and the crown (to whose rights and obligations New Hampshire succeeds) were the original parties. It is a contract made upon a valuable consideration. It is a contract for the security and disposition of property. It is a contract on the faith of which real and personal estate has been conveyed to the corporation. * * * The opinion of the court, after mature deliberation, is, that this [the charter] is a contract, the obligation of which cannot be impaired [by legislative acts] without violating the constitution of the United States."

It may be affirmed, under the doctrine of irrevocable contract, as established in the case last cited, that, *in all cases of corporate grants, that are not solely for the purpose of furnishing machinery for the government, but for private purposes and objects, if accepted, they constitute contracts between the state and the corporators;* the consideration of the grant received by the state being the general public benefit to be derived incidentally from the prosecution of the objects of the corporation, and the duties which it assumes in accepting of the grant; *and the corporate powers and privileges can no more be resumed or impaired, without the consent of the corporators, than any grant of property or other valuable thing, unless*, as we have suggested, *such right is reserved in the charter or act creating it, or in some general statute, or in the constitution of the state.*[1] But where the right to alter, amend, or repeal, is reserved in the charter, or by a general law in existence when the charter was granted, the legislature may alter, amend, or repeal the charter at its pleasure, without restriction, and summarily, and the courts

[1] Id. See, also, Trustees, etc., v. Indiana, 14 How. (U. S.) 268; Planters' Bank v. Sharp, 6 id. 301; Piqua Bank v. Knoop, 16 id. 369; Binghamton Bridge Case, 3 Wall. 51; Norris v. Trustees, etc., 7 G. & J. 7; Grammar School v. Burt, 11 Vt. 632; People v. Manhattan Co., 9 Wend. 351; Commonwealth v. Cullen, 13 Penn. St. 133; Commercial Bank, etc., v. State, 14 Miss. 599; Backus v. Lebanon, 11 N. H. 19; Edwards v. Jagers, 19 Ind. 407; State v. Noyes, 47 Me. 189; Bruffett v. G. W. R. Co., 25 Ill. 353; People v. Jackson, etc., R. Co., 9 Mich. 285; Bank of State v. Bank of Cape Fear, 13 Ired. 75; Mills v. Williams, 11 id. 558; Hawthorne v. Calef, 2 Wall. 10; Wales v. Stetson, 2 Mass. 143; State v. Tombeckbee Bank, 2 Stew. 30; Central Bridge v. Lowell, 15 Gray, 106; Bank of Old Dominion v. McVeigh, 20 Gratt. 457; Mowrey v. Indianapolis, etc., R. Co., 4 Biss. 78; City of Covington v. Covington, etc., Bridge Co., 10 Bush (Ky.), 69; Allen v. Buchanan, 9 Phil. (Penn.) 281; State v. Accommodation Bank, 26 La. Ann. 288.

have no power to review its action, except where the power is exercised so wantonly and carelessly as to violate the principles of natural justice.[1] A charter, as previously stated, is a contract between the state and the corporation, and the corporation takes the grant subject to the limitations which are contained therein, or in general laws relating thereto, in force at the time it was granted. If no power of repeal is reserved, none can be exercised; but when a charter itself or a general statute provides that the charter is subject to repeal by the legislature at its pleasure, the legislature may exercise this power in a reasonable manner, but is not justified in the unjust and despotic exercise of the power. The theory of our government is opposed to the deposit of unlimited power anywhere; the executive, the legislative, and the judicial branches of these governments are all of limited and defined power. But it is always to be presumed that the legislature has exercised its great powers for adequate cause, and it is only when this presumption is overcome by proof that it has exercised it wantonly and carelessly, or despotically and unjustly, that the courts will interfere.[2] A power to *repeal* a charter cannot be implied, and unless expressly reserved cannot be exercised. Thus, a reservation of a power "to alter, limit, restrain, or *annul* the powers conferred," does not confer upon the legislature the right of absolute repeal of the charter,[3] nor does the right to repeal a charter if the corporation "*abuses or misuses its franchises*" justify a repeal unless such causes really exist, and the courts have a right to pass upon this question in order to determine the validity of a repealing act.[4]

Sec. 33. **Immunity does not exempt property from regulation, or prohibit a change of remedies.**—But even in case there is no reservation of the right to resume, change, or abridge the powers conferred on a private corporation, the legislature still possesses the power to regulate the sale of its property and prescribe the methods and extent of its legal remedies, the same as it might those of a natu-

[1] Lothrop v. Stedman, 13 Blatchf. 134; Lothrop v. Stedman, 42 Conn. 583.
[2] Loan Association v. Topeka, 20 Wall. 663; Lothrop v. Stedman, *ante*.
[3] Allen v. McKeen, 1 Sum. 276.
[4] Comm. v. Pittsburgh, etc., R. R. Co., 58 Penn. St. 46; Erie & N. E. R. R. Co. v. Casey, 26 id. 287.

ral person.[1] They have immunity from injury to their absolute vested rights, but no such incidental injuries as may flow from a change of remedies;[2] and like a natural person they are subject to those regulations which a state may reasonably prescribe for the safety or good government of the community.[3] Thus, a corporation may be compelled to fence its railroad track;[4] and in Massachusetts it has been held that the legislature might prohibit the sale of malt liquors by statute,[5] as a proper police regulation, and that the prohibition extended to and affected the privileges of a corporation in that respect as well as natural persons, although such corporation was instituted for the purpose of brewing malt liquors, and the legislature possessed no power to resume or repeal the charter.[6] And, even in the absence of any reserved powers, the legislature may provide a remedy more effectually to compel a corporation to perform its duties, and prescribe the manner in which, the time when, and the court where, such remedy may be enforced.[7]

SEC. 34. **Power of the legislature to regulate the charges of railroads.**— The question whether the legislature can regulate and control the rates of fare and freights of railroad companies has recently been the subject of general interest and controversy as well as of judicial investigation; and it has been determined by the supreme court of the United States, that such regulation may be made, unless the railroad company is protected therefrom by a special provision of its charter or by the general statutes, under which it is organized. The court has determined that a railroad company can only charge a reasonable fare or freight as a common carrier,

[1] Bank of Republic v. Hamilton, 21 Ill. 53.

[2] Reapers' Bank v. Willard, 24 Ill. 433.

[3] Galena, etc., R. Co. v. Loomis, 13 Ill. 548; Coffin v. Rich, 45 Me. 507; State v. Noyes, 47 id. 189. See, also, *Ex parte* N. E. & S. W. R. Co., 37 Ala. 679. The general power of the legislature to legislate for the protection of the life, health and safety of the inhabitants of a state cannot be the subject of an irrevocable grant by it. Dingman v. People, 51 Ill. 277.

[4] Gorman v. Pacific R. Co., 26 Mo. 441. So, its powers may be enlarged. Gifford v. N. J. R. Co., 10 N. J. Eq. 171.

[5] Stat. Mass. 1869, chap. 415.

[6] Comm. v. Liquors, 115 Mass. 153.

[7] Gowen v. Penobscot R. Co., 44 Me. 140. See, also, Cummings v Maxwell, 45 id. 190; Taggart v. Western, etc., R. Co., 24 Md. 563. And the charter is not impaired by an act of the legislature providing for the redress of injuries occasioned by the negligence or misconduct of railroad or other corporations. Board, etc., v. Scearce, 2 Duv. (Ky.) 576.

which in the absence of legislative determination must be fixed by the courts; and that the legislature has the authority to fix the maximum rates of charges for the same, in the absence of any express provision limiting the power, either contained in the general law or charter of incorporation of such company. It is claimed that this doctrine is entirely consistent with the inviolability of the contract of the state with the company incorporated; and that, in the absence of any reserved power in the legislature, it would have a right to regulate and fix the maximum charges for transportation, the same as though the carrier was a natural person. Thus, the Burlington and Missouri Railroad Company was organized under the general incorporation law of Iowa, and subsequently the plaintiff, the Chicago, Burlington and Quincy Railroad Company, succeeded to the rights of the former, and power was conferred upon the said company to contract in reference to its business, the same as a private individual, and to establish by-laws and make all rules and regulations deemed expedient in relation to its affairs, but subject to such rules and regulations as the general assembly of Iowa might from time to time enact and provide.[1] In a recent case against said company it was held by the supreme court of the United States, that railroad companies are common carriers for hire; that they are given extraordinary powers in order the better to serve the public in that capacity; that they are engaged in a public employment affecting the public interest, and are therefore subject to legislative control; that in the transaction of business they have the same rights and are subject to the same control as private individuals under the same circumstances; that it would be their duty to carry when called upon so to do, and that they can charge only a reasonable sum for carriage; that in the absence of any legislative regulation

[1] Peik v. Chicago, etc., R. R. Co., 94 U. S. 164; Chicago, etc., R. R. Co. v. Att'y-Gen'l, 9 West. L. J. 347. But the legislature has no power to regulate the tolls of railroad companies under its police powers, where the power is not in some way reserved to it. Att'y-Gen'l v. Chicago, etc., R. R. Co., 35 Wis. 425. Nor has it such power under its power to regulate the exercise of a railroad franchise by general laws passed for the peace, good order, health, comfort and welfare of society. Sloan v. Pacific R. R. Co., 61 Mo. 24. Upon the general question upholding the right of the legislature to regulate tolls of railroads in certain cases. Cin., H. & D. R. Co. v. Cole, 29 Ohio St. 125; Iron R. R. Co. v. Lawrence Furnace Co., id. 208; Camblos v. Philadelphia, etc., R. R. Co., Brewst. (Penn.) 563.

upon the subject the courts must decide for them as they do for private persons, when controversies arise on this subject, what is a reasonable charge; that when the legislature prescribes a maximum charge for fare or freight it operates upon the corporation as it would upon an individual engaged in a similar business; that it is within the power of the company to call upon the legislature to fix permanently the limit of charges of carriage, and make it a part of the charter, and if it is refused, to abstain from accepting the grant or engaging in the business; that if fixed by the legislature at the time of the grant or acceptance of the act, it might have presented a contract in that respect, with which the legislature could not interfere; but that, as this was not done in this case, the company invested its capital, relying upon the good faith of the people and the wisdom of legislators, against any wrong in the form of legislative regulation.[1]

SEC. 35. **Ground on which legislative power is predicated.** — Although there seems to have been a provision in the charter of the original railroad company to the rights and privileges of which the plaintiff succeeded, reserving a right in the legislature to make rules and regulations in relation to the company, still the supreme court seems to rest its opinion upon the ground of the power of the legislature to regulate the charges, and to determine what is reasonable in that respect, or fix the maximum of charges of fare and freight, independent of any reserved right so to do, continued in the express statutory or constitutional law; that such corporations stand the same as natural persons in this respect; and that there is a right in the legislatue to determine what are reasonable charges for individuals, in all those occupations and employments, in which persons are engaged affecting the public interest, as in the case of public ferries, common carriers, hackmen, bakers, millers, wharfingers, innkeepers, and warehousemen. The decision in this case is, in fact, based upon the same reasons, as a decision made at the same term of the court in relation to the right of the legislature to regulate by statute the charges of the owners of warehouses, in which grain is stored in bulk, and "in which the

[1] Chicago, etc., R. Co. v. Iowa, 94 U. S. 155.

grain of different owners is mixed together, or in which grain is stored in such a manner that the identity of different lots or parcels cannot be accurately preserved," in Chicago and other places, and to fix the maximum charges for the same.[1] In the case last referred to, it was claimed, that such a statute was repugnant to that part of the constitution of the United States, which confers upon congress the power to regulate commerce with foreign nations and among the several states;[2] and to that part of the constitution, which provides that no preference shall be given by any regulation of commerce or revenue, to the ports of one state over another;[3] and to that part of the amendment of the constitution, which ordains that no state shall deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.[4] After able arguments by counsel, and a full consideration of the case by the court, it was held that a law of the state, regulating warehousing, and the inspection of grain, and fixing the maximum of charges for the storage of grain in warehouses, was constitutional, and not repugnant to that part of the fourteenth amendment of the constitution, which ordains that no state "shall deprive any person of life, liberty, or property, without due process of law, or deny to any person within its jurisdiction the equal protection of the laws." The court says: "Looking then to the common law, from whence came the right which the constitution protects, we find that when private property is affected with a public interest, it ceases to be *juris privati* only." This was said by Lord Hale more than two hundred years ago, and has been accepted without objection as an essential element of the law of property ever since. Property does become clothed with a public interest when used in a manner to make it of public consequence and affect the community at large. When, therefore, one devotes his property to a use in which the public has an interest, he in effect grants to the public an interest in that use, and must submit to be controlled by the public for the common good and to the extent of the interest thus created. He may withdraw his grant by

[1] Munn v. Illinois, 94 U. S. 113; 18 Alb. Law J. 180.
[2] Const. U. S., art. 1, § 8.
[3] Id., art. 1, § 2.
[4] Const. U. S., XIVth Amend.

discontinuing the use, but so long as he maintains the use, he must submit to the control. Thus, as to ferries, Lord HALE says[1] "the king has 'a right of franchise or privilege, that no man may set up a common ferry for all passengers, without a prescription time out of mind, or a charter from the king. He may make a ferry for his own use or the use of his family, but not for the common use of all the king's subjects passing that way; because it doth not in consequence tend to a common charge, and is becoming a thing of public interest and use, and every man for his passage pays a toll, which is a common charge, and every ferry ought to be under a public regulation, viz.: that it give attendance at due times, keep a boat in due order, and take but reasonable toll; for if he fail in these he is finable.' So, if one owns the soil and landing places on both banks of a stream, he cannot use them for the purpose of a public ferry, except upon such terms and conditions as the body politic may from time to time impose, and this, because the common good requires that all public ways shall be under the control of the public authorities. The privilege or prerogative of the king, who in this connection only represents and gives another name to the body politic, is not primarily for his profit, but for the protection of the people and the promotion of the general welfare. And again, as to wharves and wharfingers, Lord HALE says: 'A man for his own private advantage may, in a port or town, set up a wharf or crane, and may take what rates he and his customers can agree for cranage, wharfage, housellage, or pesage; for he doth no more than is lawful for any man to do, viz.: make the most of his own. * * * If the king or subject have a public wharf, unto which all persons that come to that port must come and unlade or lade their goods as for the purpose, because they are the wharves only licensed by the queen, * * * or because there is no other wharf in that port, as it may fall out where a port is newly erected; in that case, there cannot be taken arbitrary and excessive duties for cranage, wharfage, pesage, etc., neither can they be enhanced to an immoderate rate, but the duties must be reasonable and moderate, though settled by the king's license or charter. For now the wharf and crane and other conveniences are affected with a public interest,

[1] *De Jure Maris*, 1 Harg. Law Tracts, 6.

and they cease to be *juris privati* only; as if a man set out a street on his own land, it is no longer a bare private interest, but is affected by a public interest.' This statement of the law by Lord Hale was cited with approbation and acted upon by Lord Kenyon, at the beginning of the present century, in *Bolt* v. *Stennett*, 8 T. R. 606."

Sec. 36. **Reason for the exercise of such power.**— It is evident that the general reasoning, as well as the decisions, which would subject wharfingers to legislative control, on the ground of the public character of their employment, would be equally applicable to warehousemen, innkeepers, bakers, millers, cartmen and common carriers, generally. Upon this question Lord Ellenborough once observed: "There is no doubt that the general principle is favored both in law and justice, that every man may fix what price he pleases upon his own property or the use of it; but if, for a particular purpose, the public have a right to resort to his premises and make use of them, and he has a monopoly in them for that purpose, if he will take the benefit of that monopoly, he must, as an equivalent, perform the duty attached to it on reasonable terms. The question then is, whether, circumstanced as this company is, by the combination of the warehousing act with the act by which they were originally constituted, and with the actual existing state of things in the port of London, they alone having the warehousing of these wines, be not, according to the doctrine of Lord Hale, obliged to limit themselves to a reasonable compensation for such warehousing."[1] The general principle which allows legislation in these cases on the ground of the public nature of the property or business in which the person is engaged, would be particularly applicable to common carriers; and especially to that class of them which operates our railroads. Their business is particularly "affected with a public interest." Their property is employed in a manner that directly affects the body of the people. The corporate franchise is granted, and extraordinary powers conferred on such corporations, in order that they may the better serve the public in the capacity of common carriers; they are

[1] Allnut v. Inglis, 12 East, 527. See, also, opinion of Le Blanc, J., in the some case, p. 541; Mobile v. Yuille, 3 Ala. (N. S.) 140, where the right to regulate the weight and price of bread was sustained.

certainly engaged in a public employment which affects the public interest, and are within the reasoning of those class of cases, where the right of legislative control and regulation has uniformly been recognized.[1]

[1] See Eng. Stat. W. & M., chap. 12, § 24; 3 Stat. at Large (Great Britain), 481; New Jersey Nav. Co. v. Merchants' Bank, 6 How. (U. S.) 382; where it was held that common carriers exercise a sort of public office, and have duties to perform in which the public is interested.

The opinion of the learned chief-justice in Munn v. The People, already referred to, is so clear and satisfactory on this question, and illustrates the application of the principle on which the right of legislative control is based so well, in cases of warehousemen as well as in cases of common carriers, that I insert the concluding portion of it. He observes: "Enough has already been said to show that when private property is devoted to a public use it is subject to public regulation. It remains only to ascertain whether the warehouses of these plaintiffs in error and the business which is carried on there come within the operation of this principle. For this purpose we accept as true the statements of fact contained in the elaborate brief of one of the counsel of the plaintiffs in error. From these it appears that the great producing region of the west and north-west sends its grain by water and rail to Chicago, where the greater part of it is shipped by vessels for transportation to the seaboard by the great lakes, and some of it is forwarded by railway to the eastern ports * * * Vessels, to some extent, are loaded in the Chicago harbor, and sailed through the St. Lawrence directly to Europe. * * * The quantity [of grain] received in Chicago has made it the greatest grain market in the world. This business has created a demand for means by which the immense quantity of grain can be handled or stored, and these have been found in grain warehouses, which are commonly called *elevators*, because the grain is *elevated* from the boat or car by machinery operated by steam, into bins prepared for its reception, and *elevated* from the bins by like process into the vessel or car which is to carry it on * * * In this way the largest traffic between the citizens north and west of Chicago and the citizens of the country lying on the Atlantic coast north of Washington is in grain which passes through the elevators of Chicago. In this way trade in grain is carried on by the inhabitants of seven or eight of the great states of the west, with four or five states lying on the sea shore, and forms the largest part of the inter-state commerce in these states. The grain warehouses, or elevators, in Chicago, are immense structures, holding from 300,000 to 1,000,000 bushels at one time, according to size. They are divided into bins of large capacity and great strength. * * * They are located with the river harbor on one side and the railway tracks on the other, and the grain is run through them from car to vessel, or boat or car, as may be demanded in the course of business. It has been found impossible to preserve each owner's grain separate, and this has given rise to a system of inspection and grading, by which the grain of different owners is mixed, and receipts issued for the number of bushels, which are negotiable and redeemable in like kind upon demand. This mode of conducting business was inaugurated more than twenty years ago, and has grown to immense proportions. The railways have found it impracticable to own such elevators, and public policy forbids the transaction of such business by the common carrier; the ownership has, therefore, been by private individuals, who have embarked their capital and devoted their industry to such business as a private pursuit. In this connection it must also be borne in mind that, although in 1874 there was in Chicago fourteen warehouses adapted to this particular business, and owned by about thirty persons, nine business firms controlled them, and that the prices charged and received for storage were such 'as have been from year to year agreed upon and established by the different elevators or ware-

Sec. 37. **Legislative control over rate of charges by railroad companies.** — It is evident that the legislature has the right to regulate the prices of railroad companies, and especially to fix the maximum rates which they may charge for fare and freight, even

houses in the city of Chicago, and which rates have been annually published in one or more newspapers printed in said city, in the month of January in each year then next ensuing such publication.' Thus it is apparent that all the elevating facilities through which these vast productions 'of seven or eight great states of the west' must pass on the way 'to four or five of the states on the sea-shore,' may be a *virtual* monopoly. Under such circumstances it is difficult to see why, if the carrier, or the miller, or the ferryman, or the innkeeper, or the wharfinger, or the baker, or the cartman, or the hackney-coachman, pursues a public employment and exercises 'a sort of public office,' these plaintiffs in error do not. They stand, to use the language of their counsel, in the very 'gateway of commerce,' and take toll from all who pass. Their business most certainly 'tends to a common charge, and is become a thing of public interest and use.' Every bushel of grain for its passage 'pays a toll which is a common charge,' and therefore, according to Lord Hale, every such warehouseman 'ought to be under public regulation, viz., that he * * take but reasonable toll.' Certainly, if any business can be clothed with a public interest, and cease to be *juris privati* only, this has been. It may not be made so by the constitution of Illinois or this statute, but it is by the facts. We also are not permitted to overlook the fact that, for some reason, the people of Illinois, when they revised their constitution in 1870, saw fit to make it the duty of the general assembly to pass laws 'for the protection of the producers, shippers, and receivers of grain and produce' (art. 13, § 7), and by section 5 of the same article, to require all railroad companies receiving and transporting grain in bulk or otherwise to deliver the same at any elevator to which it may be consigned, that could be reached by any track that was or could be used by such company, and that all railroad companies should permit connections to be made with their tracks, so that any public warehouse, etc., might be reached by the cars on their railroads. This indicates very clearly that during the twenty years in which this peculiar business had been assuming its present immense proportions something had occurred which led the whole body of the people to suppose that remedies, such as are usually employed to prevent abuse by virtual monopolies, might not be inappropriate here. For our purposes we must assume that, if a state of facts could exist that would justify such legislation, it actually did exist when the statute now under consideration was passed. For us the question is one of power, not of expediency. If no state of circumstances could exist to justify such a statute, then we must declare this one void, because in excess of the legislative power of the state. But if it could, we must presume it did. Of the propriety of legislative interference within the scope of legislative power, the legislature is the exclusive judge. Neither is it a matter of any moment that no precedent can be found for a statute precisely like this.

It is conceded that the business is one of recent origin, that its growth has been rapid, and that it is already of great importance. And it must also be conceded that it is a business in which the whole public has a direct and positive interest. It presents, therefore, a case for the application of a long-known and established principle in social science, and this statute simply extends the law so as to meet this new development of commercial progress. There is no attempt to compel these owners to grant the public an interest in their property, but to declare their obligations, if they use it, in this particular manner. It matters not in this case that these plaintiffs in error had built their warehouses and established their business before the regulations complained of were adopted. What they did was from the beginning subject to the power of the body politic to require them to conform to such regulations as might

when the right to regulate and control them, or to amend or repeal their charters, is not contained in the act or general statutes under which they are instituted or created. The doctrine is that the

be established by the proper authorities for the common good. They entered upon their business and provided themselves with the means to carry it on, subject to this condition. If they did not wish to submit themselves to such interference, they should not have clothed the public with an interest in their concerns. The same principle applies to them that does to the proprietor of a hackney carriage, and, as to him, it has never been supposed that he was exempt from regulating statutes and ordinances, because he had purchased his horses and carriage and established his business before the statute or ordinance was adopted. It is insisted, however, that the owner of property is entitled to reasonable compensation for its use, even though it be clothed with a public interest, and that what is reasonable is a judicial and not a legislative question. It has already been shown the practice has been otherwise. In countries where the common law prevails, it has been customary, from time immemorial, for the legislature to declare what shall be a reasonable compensation under such circumstances, or perhaps, more properly speaking, to fix a maximum, beyond which any charge made would be unreasonable. Undoubtedly, in mere private contracts relating to matters in which the public has no interest, what is reasonable must be ascertained judicially. But this is because the legislature has no control over such a contract. So, too, in matters which do affect the public interest, and as to which legislative control may be exercised, if there are no statutory regulations upon the subject, the courts must determine what is reasonable. The controlling fact is the power to regulate at all. If that exists, the right to establish the maximum of charge, as one of the means of regulation is implied. In fact, the common-law rule, which requires the charge to be reasonable, is itself a regulation as to price. Without it the owner could make his rates at will, and compel the public to yield to his terms or forego the use. But a mere common-law regulation of trade or business may be changed by statute. A person has no property, no vested interest in any rule of the common law. This is only one of the forms of municipal law, and is no more sacred than any other. Rights of property, which have been created by the common law, cannot be taken away without due process; but the law itself, as a rule of conduct, may be changed at the will, or even the whim, of the legislature, unless prevented by constitutional limitations. Indeed, the great office of statutes is to remedy defects in the common law as they are developed, and to adapt it to the changes of time and circumstances. To limit the rate of charge for services rendered in a public employment, or for the use of property in which the public has an interest, is only changing a regulation which existed before. It establishes no new principle in law, but only gives a new effect to an old one. We know that this is a power which may be abused, but this is no argument against its existence. For protection against abuses by legislatures, the people must resort to the polls, not to the courts. After what has already been said, it is unnecessary to refer at length to the effect of other provisions of the fourteenth amendment, which is relied upon, viz.: That no state shall 'deny, to any person within its jurisdiction, the equal protection of the laws.' Certainly it cannot be claimed that this prevents the state from regulating the fares of hackmen, or the charges of draymen, in Chicago, unless it does the same thing in every other place within its jurisdiction. But, as has been seen, the power to regulate the business of warehouses depends upon the same principle as the power to regulate hackmen and draymen, and what cannot be done in the one case cannot, in this particular, be done in the other. We come now to consider the effect upon this statute of the power of congress to regulate commerce. It was very properly said, in the case of the State Tax on Railway Gross Receipts, 15 Wall. 293, that 'it is not every thing that affects com-

legislature creating them, or by or under whose acts they are created, may regulate and fix the maximum or reasonable charges which they may receive, the same as though they were private persons; and that such regulation is not any violation of the corporate contract, or any infringement of the constitutional rights of the corporation, whose charges are thus fixed or regulated.

The right of the legislature to regulate the charges of a private person engaged in an employment of general public interest or concern seems to be settled by a uniform current of decisions, and there would seem to be no reason, based upon principle or any sound public policy, against the right of the legislature to provide for and regulate the rates of fare and freight of incorporated companies, organized and instituted for the purpose of carrying persons or property. In fact, the reason for the application of the doctrine we have referred to would be stronger in that case than in case of mere private and individual concerns, whose business is less extensive, such as draymen, hackney coachmen, etc.; as railroad corporations have, by virtue of the corporate franchises conferred upon them, although of a private character, the right to condemn and appropriate private property for their private purposes, on the condition that they make compensation for the same to the owner.[1]

merce that amounts to a regulation within the meaning of the constitution.' The warehouses of these plaintiffs in error are situated, and their business carried on exclusively, within the limits of the state of Illinois. They are used as instruments by those engaged in state, as well as by those engaged in inter-state commerce; but they are no more necessarily a part of commerce itself, than the dray or cart, by which, but for them, grain would be transferred from one railroad station to another. Incidentally, they may become connected with inter-state commerce, but not necessarily so. Their regulation is a thing of domestic concern, and certainly until congress acts in reference to their inter-state relations, the state may exercise all the powers of the government over them, even though in so doing it may indirectly operate upon commerce outside its immediate jurisdiction. We do not say that a case may not arise in which it will be found that a state, under the form of regulating its own affairs, has encroached upon the exclusive domain of congress, in respect to inter-state commerce; but we do say, that upon the facts as they are presented to us in this record, that has not been done. The remaining objection, to-wit, that the statute in its present form is repugnant to section 9, article 1 of the constitution of the United States, because it gives preference to the ports of one state over those of another, may be disposed of by a single remark, that this provision operates only as a limitation of the powers of congress, and in no respect affects the states in the regulation of their domestic affairs."

[1] See *post*, chap. 17.

SEC. 38. **Subsequent grants — exclusive privileges — construction of charters.**—The granting of franchises to a private corporation does not ordinarily prevent future grants of the same character to others. The general doctrine is, that if a grant is accepted, it becomes a contract between the state and the corporators; yet the courts, in the construction of such contracts, will not, by implication, extend the powers of corporations beyond the express provisions of the grant, or such as are necessarily implied, in order to carry out those expressly conferred. Thus, the grant of authority by a legislature to a turnpike corporation, to construct a road between two places, and collect tolls thereon, would not preclude the same legislature from conferring similar powers upon other companies, for different routes between the same places. This doctrine is illustrated by the opinion of the supreme court of the United States in a leading case.[1] In this case a charter of the legislature of Massachusetts conferred upon certain persons authority to construct a bridge over Charles river, thereby connecting Boston and Charlestown, with the right to collect tolls, but without provisions conferring special powers, or restricting future legislative action, and such bridge was built by said corporation, and the legislature subsequently incorporated another company to build the Warren bridge across the same river, and near the former one, and said latter company were proceeding to build such bridge, when the former filed a bill for an injunction, and also for general relief, on the ground that the second charter impaired the obligations of the former charter, but it was dismissed.[2] And this decision was affirmed in the supreme court of the United States. Chief-Justice TANEY in this case, referring to the charter of the proprietors of the Charles River bridge, and the rules of construction of such charters, observes: "This act of incorporation is in the usual form, and the privileges are such as are commonly given to corporations of that kind. It confers on them the ordinary faculties of a corporation, for the purpose of building the bridge, and establishes certain rates of toll which the company are authorized to take. This is the whole grant. There is no exclusive privilege given to them over the waters of Charles river, above or below their bridge. No right to erect another bridge themselves, or prevent

[1] Charles River Bridge v. Warren Bridge, 11 Pet. 420.

[2] 7 Pick. 344.

other persons from erecting one. No engagement from the state that another shall not be erected, and no undertaking not to sanction competition, nor to make improvements that may diminish the amount of its income. Upon all of these subjects the charter is silent. No words are used from which an intention to grant any of those rights can be inferred. If the plaintiff is entitled to them it must be implied simply from the nature of the grant, and cannot be inferred from the words by which the grant is made. The relative position of the Warren bridge has already been described. It does not interrupt the passage over the Charles River bridge, nor make the way to it or from it less convenient. None of the faculties or franchises granted to that corporation have been revoked by the legislature, and its right to take the tolls granted by the charter remains unaltered. In short, all the franchises and rights of property enumerated in the charter, and there mentioned to have been granted to it, remain unimpaired. But its income is destroyed by the Warren bridge, which, being free, draws off the passengers and property which would otherwise have gone over it, and renders their franchises of no value. This is the gist of the complaint. For it is not pretended that the erection of the Warren bridge would have done them any injury, or in any degree affected their right of property, if it had not diminished the amount of their tolls. In order, then, to entitle themselves to relief, it is necessary to show that the legislature contracted not to do the act of which they complain, and that they impaired, or in other words, violated that contract, by the erection of the Warren bridge. The inquiry is, does the charter contain such a contract on the part of the state? Is there such a stipulation to be found in that instrument? * * * If a contract on that subject can be gathered from the charter it must be by implication, and cannot be found in the words used. Can such an agreement be implied? In such charters no rights are taken from the public or given to the corporation, beyond those which the words of the charter, by their natural and proper construction, purport to convey." [1]

[1] It is further observed by the learned justice in this case, as follows: "Turnpike roads have been made in succession on the same line of travel; the later ones interfering materially with the profits of the first. These corporations have, in some instances, been utterly ruined by the introducing

But this doctrine does not obtain where the charter expressly provides for exclusive privileges, and confers franchises of an extraordinary character. And a railroad corporation, upon which have been conferred such exclusive and extraordinary privileges and franchises, may maintain an action in equity, for any disturbance of them.[1] Thus, where it was provided in the charter of such a corporation, "that no other railroad than the one hereby granted shall, within thirty years from and after the passing of this act, be authorized to be made, leading from Boston, Charlestown or Cambridge to Lowell," it was held that this constituted a contract by the state with the Boston and Lowell Railroad Corporation, and that no other railroad from Boston, Charlestown or Cambridge to Lowell could be lawfully incorporated within thirty years, and that such a condition was binding upon subsequent legislatures of that state.[2]

of newer and better modes of transportation and traveling. In some cases railroads have rendered the turnpike roads on the same line of travel so useless, that the franchise of the turnpike corporation is not worth preserving. Yet in none of these cases have the corporations supposed that their privileges were invaded or any contract violated on the part of the state. Among the multitude of cases which have occurred and been daily occurring for the last forty or fifty years, this is the first instance in which such an implied contract has been contended for, and this court called upon to infer it from an ordinary act of incorporation, containing nothing more than the usual stipulations and provisions to be found in every such law. The absence of any such controversy, when there must have been so many occasions to give rise to it, proves that neither states, nor individuals, nor corporations, ever imagined that such a contract could be implied from such charters. It shows that the men who voted for those laws never imagined that they were forming such a contract; and if we maintain that they have made it, we must create it by a legal fiction, in opposition to the truth of the fact, and the obvious intention of the party."

[1] When the charter contains a grant of exclusive privileges it will be construed strictly and with reference to the particular objects of the grant. Mohawk Bridge Co. v. U. & S. R. R. Co., 6 Paige's Ch. 554; Cayuga Bridge Co v. Magee, 2 id. 116. But the public faith as pledged in the charter will be upheld at all hazard and regardless of consequences to others. The Enfield Toll Bridge Co. v. Hartford & New Haven R. R. Co., 17 Conn. 41. In this case, id. 454, the court, upon a further hearing, held that the franchise of the plaintiff being in the nature of real estate might be taken under the right of eminent domain for public purposes and upon proper assessment and payment of the damages thereto by such taking. See, also, Bradley v. N. Y. & N. H. R. R. Co., 21 Conn. 299; Clark v. Saybrook, id. 316; Salem & H. Turnpike Co. v. Lyme, 18 id. 457.

[2] Boston & Lowell R. Co. v. Salem & Lowell R. Co., 2 Gray, 1. In this case the supreme court, per SHAW, C. J., say: "In construing this act of incorporation, we are to bear in mind the time and circumstances under which it was made, but more especially to take into consideration every part and clause of the act, and deduce from it the true meaning and intent of the parties. The act, like every act and charter of the same kind, is a contract

Sec. 39. **Reservation of power in the legislature.** — The inviolability of the contract secured by incorporation, and the disability of the state, through its legislature, to resume or in any

between the government on the one part, and the undertakers, accepting the act of incorporation, on the other; and therefore what they both intended, by the terms used, if we can ascertain it, forms the true construction of such contract. * * * The question is, does his provision confer any exclusive right, interest, franchise or benefit on this corporation? It is found in the same act; the whole is presented at once to the consideration of the corporators, to be accepted or rejected as a whole; and this would, of course, constitute a consideration in their minds, in determining whether to accept or reject the charter. If it adds any thing to the value and benefit of the franchise, such enhanced value is part of the price which the public propose to pay, and which the undertakers expect to receive, as their compensation for furnishing such public improvement.

"This is a stipulation of some sort, a contract, by one of the contracting parties, to and with the other; in order to put a just construction upon it, we must consider the character and relations of the contracting parties, the subject-matter of the stipulation, and its legal effect upon their respective rights. It was made by the government, in its sovereign capacity, with subjects, who were encouraged by it to advance their property for the benefit of the public. It was certainly a stipulation on the part of the government regulating its own conduct, and putting a restraint upon its own power to authorize any other railroad to be built, with a right to levy a toll, and of course, no other such road could lawfully be made. It was, therefore, equivalent to a covenant for quiet enjoyment against its own acts, and those of persons claiming under it. This is, in fact, all that the government could stipulate. It could not covenant with the corporation for quiet enjoyment against strangers and intruders, against the unauthorized and illegal disturbance of their rights by third parties; against these, they would have their remedy in the general laws of the land."

The same doctrine was also held in The Binghamton Bridge Case, 3 Wall. 51. Davis, J., in the opinion in this case, observes:

"The constitution of the United States declares that no state shall pass any law impairing the obligation of contracts; and the twenty-fifth section of the judiciary act provides that the final judgment or decree of the highest court of the state, in which a decision in a suit can be had, may be examined and reviewed in this court, if there was drawn in question in the suit the validity of a statute of the state, on the ground of its being repugnant to the constitution of the United States, and the decision was in favor of its validity.

"The plaintiffs in error brought a suit in equity in the supreme court in New York, alleging that they were created a corporation by the legislature of that state, on the 1st of April, 1808, to erect and maintain a bridge across the Chenango river, at Binghamton, with perpetual succession, the right to take tolls, and a covenant that no other bridge should be built within a distance of two miles either way from their bridge; which was a grant in the nature of a contract that cannot be impaired. The complaint of the bill is, that notwithstanding the Chenango Bridge Company have faithfully kept their contract with the state, and maintained for a period of nearly fifty years a safe and suitable bridge for the accommodation of the public, the legislature of New York, on the 5th of April, 1855, in plain violation of the contract of the state with them, authorized the defendants to build a bridge across the Chenango river within the prescribed limits, and that the bridge is built and open for travel.

"The bill seeks to obtain a perpetual injunction against the Binghamton Bridge Company from using or allowing to be used the bridge thus built, on the sole ground that the statute of the state which authorizes it is repug-

way modify or control the powers thus conferred, although they may have been the result of unwise, hasty, or corrupt legislation, has created apprehensions of danger from the power that

nant to that provision of the constitution of the United States which says that no state shall pass any law impairing the obligation of contracts. Such proceedings were had in the inferior courts of New York, that the case finally reached and was heard in the court of appeals, which is the highest court of law or equity of the state in which a decision of the suit could be had. And that court held that the act by virtue of which the Binghamton bridge was built was a valid act, and rendered a final decree dismissing the bill. Every thing, therefore, concurs to bring into exercise the appellate power of this court over cases decided in a state court and to support the writ of error, which seeks to re-examine and correct the final judgment of the court of appeals in New York.

"The questions presented by this record are of importance, and have received deliberate consideration.

"It is said that the revising power of this court, over state adjudications is viewed with jealousy. If so, we say, in the words of Chief-Justice MARSHALL, 'that the course of a judicial department is marked out by law. As this court has never grasped at ungranted jurisdiction, so it never will, we trust, shrink from that which is conferred upon it.' The constitutional right of one legislature to grant corporate privileges and franchises, so as to bind and conclude a succeeding one, has been denied. We have supposed, if any thing was settled by an unbroken course of decisions in the federal and state courts, it was, that an act of incorporation was a contract between the state and the stockholders. All courts, at this day, are estopped from questioning the doctrine. The security of property rests upon it, and every successful enterprise is undertaken, in the unshaken belief that it will never be forsaken.

"A departure from it *now* would involve dangers to society that cannot be foreseen, would shock the sense of justice of the country, unhinge its business interests, and weaken, if not destroy, that respect which has always been felt for the judicial department of the government. An attempt, even to reaffirm it, could only tend to lessen its force and obligation. It received its ablest exposition in the case of Dartmouth College v. Woodward, 4 Wheat. 518, which case has ever since been considered a landmark by the profession, and no court has since disregarded the doctrine, that the charters of private corporations are contracts, protected from invasion by the constitution of the United States. And it has since so often received the solemn sanction of this court, that it would unnecessarily lengthen this opinion to refer to the cases, or even enumerate them.

"The principle is supported by reason as well as authority. It was well remarked by the chief-justice, in the Dartmouth College case, 'that the objects for which a corporation is created are universally such as the government wishes to promote. They are deemed beneficial to the country, and this benefit constitutes the consideration, and in most cases the sole consideration for the grant.' The purposes to be attained are generally beyond the ability of individual enterprise and can only be accomplished through the aid of associated wealth. This will not be risked unless privileges are given and securities furnished in an act of incorporation. The wants of the public are often so imperative, that a duty is imposed on government to provide for them; and as experience has proved that a state should not directly attempt to do this, it is necessary to confer on others the faculty of doing what the sovereign power is unwilling to undertake. The legislature, therefore, says to public spirited citizens: 'If you will embark, with your time, money, and skill, in an enterprise which will accommodate the public necessities, we will grant to you, for a limited period, or in perpetuity, privileges that will justify the expenditure of your money, and the employment of

may thus be created;[1] and to guard against and protect the government and the interest of the people therefrom, provisions are now usually found in the constitutions of various states of the Union, preventing the creation of corporations, except subject to the right of the legislature to repeal or amend the same; and not unfrequently the special or general law creating them, contains a clause, reserving the right of the legislature to control such corporation and amend, alter, abridge, regulate or withdraw the

your time and skill.' Such a grant is a contract, with mutual considerations, and justice and good policy alike require that the protection of the law should be assured to it.

"It is argued, as a reason why courts should not be rigid in enforcing the contracts made by states, that legislative bodies are often overreached by designing men, and dispose of franchises with great recklessness.

"If the knowledge that a contract made by a state with individuals is equally protected from invasion as a contract made between natural persons, does not awaken watchfulness and care on the part of law-makers, it is difficult to perceive what would. The corrective to improvident legislation is not in the courts, but is to be found elsewhere.

"A great deal of the argument at the bar was devoted to the consideration of the proper rule of construction to be adopted in the interpretation of legislative contracts. In this there is no difficulty. All contracts are to be construed to accomplish the intention of the parties; and in determining their different provisions, a liberal and fair construction will be given to the words, either singly or in connection with the subject-matter. It is not the duty of a court, by legal subtlety, to overthrow a contract, but rather to uphold it and give it effect; and no strained or artificial rule of construction is to be applied to any part of it. If there is no ambiguity, and the meaning of the parties can be clearly ascertained, effect is to be given to the instrument used, whether it is a legislative grant or not. In the case of the Charles River Bridge, 11 Peters, 544, the rules of construction known to the English common law were adopted and applied in the interpretation of legislative grants, and the principle was recognized, that charters are to be construed most favorably to the state, and that in grants by the public nothing passes by implication. This court has repeatedly since reasserted the same doctrine; and the decisions in the several states are nearly all the same way. The principle is this: that all rights which are asserted against the state must be clearly defined, and not raised by inference or presumption; and if the charter is silent about a power, it does not exist. If, on a fair reading of the instrument, reasonable doubts arise as to the proper interpretation to be given to it, those doubts are to be solved in favor of the state; and where it is susceptible of two meanings, the one restricting and the other extending the powers of the corporation, that construction is to be adopted which works the least harm to the state. But if there is no ambiguity in the charter, and the powers conferred are plainly marked, and their limits can be readily ascertained, then it is the duty of the court to sustain and uphold it, and to carry out the true meaning and intention of the parties to it. Any other rule of construction would defeat all legislative grants, and overthrow all other contracts."

[1] Of the power of the legislature to preclude itself from exercising in future any of the essential attributes of sovereignty, see construction of the New York constitution in connection with an act of the legislature relating to railways in streets, in the New York court of appeals, in the case of Matter of the Gilbert Elevated Railroad Co., 70 N. Y. 361.

rights, privileges and powers conferred.[1] In such cases the legislature could alter, change, set aside, abridge or regulate the corporate powers and franchises without any violation of the contract or of constitutional rights.[2]

If the corporate rights are conferred subject to the reserved right of the legislature to modify or repeal them, the rights of powers conferred are mere privileges, subject to be withdrawn at any time at the will of the legislature;[3] and the right may be exercised in any manner and to any extent that may be deemed proper. If the corporation is a railroad company, it may, under a general reservation, make changes in the level, grade and connections of the road, direct the construction of new connecting tracks, and provide in what manner, and under whose supervision the work shall be done and how paid for.[4] And in such cases, not only the original corporators, but the subsequent stockholders and bondholders, whose bonds are secured by mortgages, will be held to have acquired their respective rights, with knowledge of and subject to the reserved right of the legislature to alter or resume the powers and franchises conferred upon the corporation.[5]

[1] Code Iowa, § 1090; Const. Iowa, art. 8, § 12; New York Const., art. 8, § 1; 2 R. S. 497, § 8, 5th ed. If the power to revoke corporate charters is contained in the constitution, it need not be contained in the charter. Delaware, etc., R. Co. v. Tharp, 5 Harr. (Del.) 454.

[2] West Wisconsin R. Co. v. Supervisors, etc., 35 Wis. 257. But constitutional or statutory provisions could not have a retroactive effect. Id.; Hamilton v. Keith, 5 Bush (Ky.), 458; Griffin v. The Kentucky Co., 3 id. 592.

[3] State v. Commissioners, 37 N. J. L. 228.

[4] Fitchburg, etc., R. Co. v. Grand Junction, etc., R. Co., 4 Allen, 198. See, also, Hyatt v. McMahon, 25 Barb. 457.

[5] West Wisconsin R. Co. v. Supervisors, etc., 35 Wis. 257. But it cannot compel the corporators to accept of an amendment, though it may destroy the corporation. If the original powers are changed or modified, they must accept the same as modified or cease to transact business in a corporate capacity. Yeaton v. Bank of the Old Dominion, 21 Gratt. (Va.) 593. See, also, as to power to alter or amend, Commissioners, etc., v. Holyoke Water Power Co., 104 Mass. 446.

Under a reserved authority in the legislature contained in constitutions, general or special laws, or in the charters of corporations, the question has been presented, whether the legislature can authorize a change of the objects and purposes for which the corporation was created, without the unanimous concurrence of all the stockholders. In New York, Massachusetts, Illinois and Missouri, from the current of decisions, it would appear that in the exercise of the reserved right of the legislature, it may authorize the corporation to engage in a new enterprise, or extend the objects and purposes of the old one, without the assent or concurrence of all the members, and even against the protest of a minority of them. See Northern R. Co. v. Miller, 10 Barb. 260; White v. Syracuse, etc., R. Co., 14 id. 559; Schenectady, etc., Plankroad Co. v.

Sec. 40. **Right to resume based upon misuse or abuse of its franchise.** — Where a charter provides, that if the corporation shall at any time misuse or abuse its franchises, the legislature may revoke the grant, it has been recently held, that the power of revocation is thereby made conditional, upon some misuse or abuse, and that this fact must be proved upon some inquiry, giving the corporation an opportunity to be heard in defense, before the charter can be revoked.[1]

Sec. 41. **The power to resume cannot be exhausted.** — A reservation of the right to resume, repeal, or alter a corporate charter, or grant, has none of the characteristics of a mere power, which when once exercised is exhausted; but its effect is upon the legislative grant itself to prevent it from becoming, what it would become without the limitation, namely, an irrevocable contract between the state and the corporation.[2]

Sec. 42. **General statutes reserving power.** — A statute which in general terms provides, that the legislature may resume or amend

Thatcher, 11 N. Y. 102; Buffalo, etc., R. Co. v. Dudley, 14 id. 336; Durfee v. Old Colony R. Co., 5 Allen, 230; Banet v. Alton, etc., R. Co., 13 Ill. 504; Pacific R. Co. v. Hughes, 22 Mo. 291. But a contrary doctrine seems to prevail in Wisconsin, New Jersey and Maine; and it is there held that, while the legislature may, under the reserved right, grant the power to embark in new enterprises, not contemplated in the original corporation, the corporation cannot be compelled to use the franchise thus conferred, nor can the majority of the corporators carry out the powers thus conferred, against the will of any member. Kenosha, etc., R. Co. v. Marsh, 17 Wis. 13; Zabriskie v. Hackensack, etc., R. Co., 18 N. J Eq. 178; Oldtown, etc., R. Co. v. Veazie, 39 Me. 571. See, also, Delaware, etc., R. Co. v. Tharp, 1 Houst. (Del.) 149; 5 id. 454.

[1] Baltimore v. Pittsburgh, etc., R. Co., 3 Pittsb. 20. The court suggests in this case, that the proper mode for the legislature to proceed, in such a case, would be to pass a resolution directing the attorney-general to institute the proper proceedings in the courts to ascertain the facts; and that if in such proceeding the charge be found true, the charter should be revoked. See, also, Commonwealth v. Pittsburgh, etc., R. Co., 58 Penn St. 26, where it was held, that the legislature was not the final judge of the sufficiency of the causes for a repeal of a charter, based upon a charge of misuse or abuse of the same. See, also, Crease v. Babcock, 23 Pick. 334; Commonwealth v. Essex Co., 13 Gray, 239; State v. Curran, 12 Ark. 321; Delaware R. Co. v. Tharp, 5 Harr. (Del.) 474. But in Miners' Bank v. United States, 1 Greene (Ia.), 553, it was held, in a similar case, that the legislature was the proper judge as to the fact of misuse and abuse, and of the right to resume the powers conferred, on their own judgment of the facts; and that their act and motives, or the sufficiency of the evidence on which they acted, could not be collaterally questioned in the courts. See, also, *post*, chap. 20.

[2] State v. Commissioners, etc., 37 N. J. L. 228.

charters, or control corporations, will authorize the legislature to exercise this power, though the corporate act under which a corporation is created contains no express limitations of its power, nor any provision in relation to such reserved powers. And a charter granted after the passage of a general act subjecting all charters thereafter granted to amendment or changes, in the discretion of the legislature, is subject to alteration although the charter or act creating it does not expressly refer to the act containing the reserved power.[1]

SEC. 43. **Amendments of charters.** — If there is a reserved right to resume the charter or amend the provisions of the statutes under which corporations are instituted, and the legislature by virtue of such authority amends the charter or statutes, the corporation has a discretion whether to accept or not the grant as amended; and the granting of new franchises to an existing corporation is inoperative until accepted.[2] If the corporation accepts of such an act, it must do so in an unqualified manner; there cannot be a partial acceptance of the requirements and conditions of statutes granting corporate privileges.[3]

Where the defendants, who were a corporation, had received a charter, subject to the right of amendment or repeal, which gave them authority to construct and use a railroad terminating in the city of New Haven, and provided that the construction of that part of the road within the limits of the city should be subject to

[1] Bangor, etc., R. Co. v. Smith, 47 Me. 34; State v. Person, 32 N. J. L. 134. See, also, Oliver Lee & Co.'s Bank, 21 N. Y. 9; Commonwealth v. Fayette R. Co., 55 Penn. St. 452.

[2] Yeaton v. Bank of the Old Dominion, 21 Gratt. (Va.) 593; Commissioners, etc., v. Holyoke Water Power Co., 104 Mass. 446; Lyons v. Orange, etc., R. Co., 32 Md. 18; Kenton County v. Bank Lick Townp. Co., 10 Bush, 529. And a right reserved by the legislature in an original act of incorporation, to alter a charter, was held to confer power to impose a tax on the capital stock of the company, notwithstanding a supplemental act, that the "capital stock and dividends" of that kind of corporations should not be taxable. Union Improvement Co. v. Commonwealth, 69 Penn. St. 140. See, also, State v. Mayor, etc., 35 N. J. L. 157.

[3] Id. See, also, *ante*, § 31. Where there is a general power of repeal of corporate charters, contained in the constitution of a state, and there is also a power reserved to the legislature, contained in the act creating the corporation, the power contained in the constitution is sufficient authority for the exercise of this power as well as the act of incorporation, and a retroactive statute affecting corporations created under an act providing therefor, is constitutional. Oliver Lee & Co.'s Bank, 21 N. Y. 9. A change of the constitution cannot affect a vested right. Id. See, also, Reciprocity Bank, 29 Barb. 369; S. C., 17 How. (N. Y.) Pr. 323; Commonwealth v. Erie, etc., R. Co., 27 Penn. St. 339.

such regulations as the common council of the city should prescribe, and they constructed their road and built bridges within and to the acceptance of the city, and an act was subsequently passed by the legislature authorizing the common council of the city to order the bridges widened in such a manner as the public convenience might require, and to enforce such order, it was held that the act was not unconstitutional, as impairing the obligation of the contract of the state with the company, or as taking their property without compensation.[1] And where the legislature enlarged the powers of a corporation with the assent of the stockholders, it was held that no one stockholder, by refusing his assent, could hinder the exercise of the enlarged powers.[2]

SEC. 44. **Repeal of charter.**— Although a state enactment exempting a corporation from taxation, if absolute, may be operative as a contract, so that it cannot be abrogated by subsequent legislation, yet where, instead of being absolute, the charter is accepted, subject to the general law of the state, that all corporate charters shall be subject to amendment or repeal by the legislature, a subsequent legislature may revoke it.[3] So, a state legislature has power to pass a law affecting the interests of a corporation, under a general power reserved by a law antedating the charter, providing the charter is subject to amendment or repeal; and the objection in such a case, that the subsequent legislation amending the charter impairs the obligation of the contract, will not avail.[4]

SEC. 45. **General implied powers of corporations.**— The creation of a corporation under a special or a general statute would carry with it, by implication, all the common-law incidents and powers of a corporation, unless there was some limitation contained in the law at the time. These common-law incidents and powers, as we have before observed, are the right of perpetual succession, to sue

[1] English v. New Haven, etc., R. Co., 32 Conn. 240; Buffalo, etc., R. Co. v. Dudley, 14 N. Y. 336. See, also, People v. Grand, etc., Plank R. Co., 10 Mich. 400.

[2] Curry v. Scott, 54 Penn. St. 270. If the alterations be fundamental, the acceptance must be unanimous. State v. Accommodation Bank, etc., 26 La. Ann. 288.

[3] Tomlinson v. Jessup, 15 Wall. 454. See, also, Tomlinson v. Branch, id. 460.

[4] Tomlinson v. Branch, *supra*; Miller v. State, 15 Wall. 478; Holyoke v. Lyman, id. 500.

and be sued, to grant and receive in the corporate name, to purchase and hold real and personal property, to have a common seal, and to make by-laws.[1]

SEC. 46. **Powers conferred or limited by statutes.**— The powers and privileges of corporate bodies are, however, usually limited and controlled by the creative statutes.[2] These may extend, or limit and restrain, the corporate common-law powers and privileges. The legislative authority in this respect is restrained only by constitutional provisions. The charter or statute is the fundamental law of the corporate existence; and usually specifies the powers which it is intended to confer, the mode of exercising, resuming, or amending or modifying the same. The acceptance of a grant of corporate powers is, of course, an acceptance of all the requirements and conditions of it, and there can be, as we have noticed, no qualified or conditional acceptance of it, or of any amendment of the same.[3]

The powers and franchise conferred by the grant of corporate privileges, whether at common law or under the statutes, are of three kinds, namely: those granted in express words; those necessarily implied in, or incident to, the powers expressly granted, and those essential to the objects and purposes of the grant.[4]

In this respect the same rules of construction would be applicable to a municipal as to a private corporation. No powers can

[1] 1 Bl. Com. 475; Kyd on Corp. 13, 69, 70. See, also, Penobscot Boom Corp. v. Lamson, 16 Me. 24. So, at common law, corporations could take property by all the usual methods of acquiring it. Sherwood v. American Bible Society, 4 Abb. Ct. App. Dec. 227.

[2] Perrine v. Chesapeake, etc., Canal Co., 9 How. 182. See, also, Haynes v. Covington, 21 Miss. 408.

[3] Farmers' Loan & Trust Co. v. Carroll, 5 Barb. Ch. 613; The Bushwick, etc., Co. v. Ebbetts, 3 Edw. (N. Y.) 353. See, also, Penobscot Boom Corp. v. Lamson, 16 Me. 224. The Miners' Ditch Do. v. Zellerbach, 37 Cal. 543.

[4] 1 Dill. on Corp., § 55. A corporation has no power except what is given by its incorporating act, either expressly or as incidental to the exercise of the corporate powers granted. Head v. Providence Ins. Co., 2 Cranch, 127; Dartmouth College v. Woodward, 4 Wheat. 636; Beaty v. Knowler, 4 Pet. 152; Smith v. Eureka Flour Mills, 6 Cal. 1; Winter v. Muscogee R. Co., 11 Ga. 438; Louisiana State Bank v. Orleans Nav. Co., 3 La. Ann. 294; Baltimore v. Baltimore, etc., R. Co., 21 Md. 50; Whitman Mining Co. v. Baker, 3 Nev. 386; Downing v. Mt. Washington R. Co., 40 N. H. 230; Strauss v. Eagle Ins. Co., 5 Ohio St. 59; White's Bank v. Toledo Ins. Co., 12 id. 601; Madison, etc., R. Co. v. Watertown, etc., P. R. Co., 5 Wis. 173. Middle Bridge v. Brooks, 13 Me. 391; Merriam v. Moody's Executors, 25 Ia. 163; Nicholson Pavement Co. v. Painter, 35 Cal. 699.

be exercised except such as are conferred, and in case of reasonable doubt it must be decided against the corporation. If a power is exercised which is not authorized, it is *ultra vires* and void. But we will consider this subject hereafter. On the subject of corporate powers and rights, and the rules of construction of corporate charters, Mr. Justice Church very forcibly and accurately observes: "In this country all corporations, whether public or private, derive their powers from the legislative grant, and can do no act for which authority is not expressly given or may not be reasonably inferred. But if we were to say that they can do nothing, for which a warrant could not be found in the language of their charters, we should deny them in some cases the power of self-preservation, as well as many of the means necessary to effect the essential objects of their incorporation. And, therefore, it has long been an established principle in the law of corporations, that they may exercise all the powers within the fair intent and purpose of their creation, which are reasonable and proper to give effect to the powers expressly granted. In doing this, they must have a choice of means adapted to ends, and are not confined to any one mode of operation."[1] But the powers must be germane to the purposes of its creation;[2] and in construing grants, the settled rule of the courts is, that only such powers and rights can be exercised under them as are clearly comprehended within the words of the act, or derived therefrom by necessary implication, the objects of the grant being considered in construing it. But any doubts arising in the construction of public grants are in favor of the public.[3]

Sec. 47. **The corporate powers limited to the objects of the grant.**— In construing corporate grants, it is uniformly held, that the corporate powers are restricted by the nature and objects of the institution, and will not in this respect extend beyond the letter or

[1] Bridgeport v. Railroad Co., 15 Conn. 475.

[2] Mayor v. Yuille, 3 Ala. 137; Harris v. Intendant, 28 id. 577; Intendant v. Chandler, 6 id. 899.

[3] Minturn v. Larue, 23 How. (U. S.) 435. The supreme court of Pennsylvania say: "When a state means to clothe a corporate body with a portion of her own sovereignty, and to disarm herself to that extent of the power that belongs to her, it is so easy to say so, that we will never believe it to be meant when it is not said. * * * In the construction of a charter to be in doubt is to be resolved; and every resolution which springs from doubt is against the corporation." Pennsylvania R. Co. v. Canal Coms., 21 Penn. St. 22.

spirit of the grant or statute. *They can lawfully exercise no powers except such as are expressly conferred, or such as are necessary to the performance of corporate duties, in the accomplishment of the purposes and objects for which the body was incorporated.* An attempt to exercise powers beyond this would be *ultra vires* and void.[1]

"This principle," observes Chief-Justice SHAW, "is derived from the nature of corporations, the mode in which they are

[1] Vandall v. San Francisco Dock Co., 40 Cal. 83. They can exercise only such powers as are expressly conferred upon them, or such as are fairly implied to enable them to fully carry out the purposes for which they were incorporated. Weckler v. First National Bank, 42 Md. 581; Matthews v. Skinner, 62 Mo. 329; Bellmeyer v. Independent Dist. of Marshaltown, 44 Iowa, 164. They have none of the elements of sovereignty and cannot go beyond the powers conferred upon them by law. St. Louis v. Weber, 44 Mo. 547. And where extraordinary powers are conferred, which contravene established rights, they will be construed strictly. Greenwich v. Easton, etc , R. R. Co., 24 N. J. Eq. 217. But as previously stated, a corporation chartered for a specific purpose takes, by implication, all the incidental powers necessary for the consummation of such purpose, even though the charter prohibits it from exercising any powers, except such as are essential to its corporate existence. Morris, etc., R. R. Co. v. Sussex R. R. Co., 20 N. J. Eq. 542. But it can do no act *expressly* prohibited by the charter, although otherwise it might have been fairly within its incidental powers. Farmers, etc., Bank v. Harrison, 57 Mo. 503. Thus, a corporation authorized to receive deposits, may issue certificates of deposit, even though prohibited from issuing bills, bonds, notes, *or other securities to circulate as money, because* the purposes of the corporation being to receive deposits, it will be presumed that the legislature did not intend to prohibit it from giving to a depositor such necessary evidence of its liability for a deposit, even though it be used to circulate as money. Talladega Ins. Co. v. Landers, 43 Ala. 115. In Vandall v. South San Francisco Dock Co., 40 Cal. 83, the powers enumerated in the certificate of incorporation of a dock company were to buy, *improve*, or dispose of real estate, etc., and it was held that the term *improve* must be construed in its most liberal sense as including the performance of any act, whether on or off the land, *the direct and proximate effect of which would be to enhance its value in the market.* So in Dorsey, etc., R. R. Co. v. Marsh, 6 Fisher's Pat. Cas. (U. S.) 387, it was held that a power to purchase property enables a corporation to purchase and hold a patent, the ownership of which is appropriate to enable it to execute the corporate purpose. For instances of other incidental powers see The Camanche, 8 Wall. (U. S.) 448; New England Car Spring Co. v. Union India-rubber Co., 4 Blatchf. 1; Miner's Ditch Co. v. Zellerbach, 37 Cal. 543; Central Gold Mining Co. v. Platt, 3 Daly (N. Y. C. P.), 263. In a Pennsylvania case this right to exercise incidental powers was well illustrated in a case where a company owning a large body of unimproved lands was held to have power to build saw-mills and a hotel to accommodate persons having business at the location of the company, under a clause in the charter authorizing it "to aid in the development of minerals and other materials, and to promote the clearing and settlement of the country." Watt's Appeal, 78 Penn. St. 370. See, also, White v. Lester, 4 Abb. App. Dec. (N. Y.) 585; Dupee v. Boston Water Power Co., 114 Mass. 37; Hahn v. Purdell, 3 Bush, 189; West v. Madison Co. Ag. Board, 82 Ill. 205; Kitchen v. Cape Girardeau, etc., R. Co., 59 Mo. 514.

organized, and in which their affairs must be conducted. In aggregate corporations, as a general rule, the act and will of the majority is deemed in law the act and will of the whole — as the act of the corporate body. The consequence is, that a minority must be bound not only without but against their consent. Such an obligation may extend to every onerous duty, to pay money to an unlimited amount, to perform services, to surrender lands, and the like. It is obvious, therefore, that if this liability were to extend to unlimited and indefinite objects, the citizen, by being a member of a corporation, might be deprived of his most valuable personal rights and liberties. The security against this danger is a steady adherence to the principle stated, viz., that corporations can only exercise powers over their respective members, for the accomplishment of limited and defined objects. And if this principle is important, as a general rule of social right and municipal law, it is of the highest importance in those states where corporations have been extended and multiplied, so as to embrace almost every object of human concern."[1]

According to the principles of the law relating to the powers of corporations, it is evident that if a corporation is instituted for purposes of insurance, it could not properly engage in banking, but must be confined to the business for which it was incorporated; and it has been held that notes discounted, and securities for money loaned by an insurance company, in violation of statutes restraining such action, were void.[2] The same doctrine was held in a case where a library association attempted to exercise the business of banking.[3] So, power to acquire lands for a right of way does not authorize a railroad company to acquire lands for speculative purposes,[4] nor does the grant of a right "to grant, bargain, sell, buy or receive all kinds of property, real, personal

[1] Spaulding v. Lowell, 23 Pick. 71. See, also, Stetson v. Kempton, 13 Mass. 272; Willard v. Newburyport, 12 Pick. 227; Keyes v. Westford, 17 id. 273; Cooley v. Granville, 10 Cush. 57. And the law creating a corporation will be an index to the objects for which it was created and the powers with which it was endowed. Aurora v. West, 9 Ind. 74.

[2] Utica Ins. Co. v. Scott, 19 Johns. 1.

[3] State v. Washington Library Co., 11 Ohio, 96. See, also, Knowles, lessee, v. Beatty, 1 McLean (C. C.), 43; People v. Utica Ins. Co , 15 Johns. 358; Korn v. Mutual Ins. Soc., 6 Cranch, 192; New York Fire Ins. Co. v. Ely, 2 Cow. 678; Bank of Utica v. Smedes, 3 id. 662; Perrine v. Chesapeake, etc., Canal Co., 9 How. (U. S.) 172; Trustees v. Peaslee, 15 N. H. 317.

[4] Pacific R. R. Co. v. Seely, 45 Mo. 212.

or mixed, or to hold the same in trust or otherwise * * * * and to advance moneys * * * * upon any property, real or personal, on such terms or commissions as may be established or approved by the directors," necessarily authorize the corporation to transact a banking business.[1] In a word, a corporation takes no powers by implication, except such as are fairly incident to the objects and purposes of the grant.[2] No power can be implied in favor of a corporation to do an act in opposition to the general law, or which is prohibited by it. Thus where the charter of a company authorized it to dispose of property "in any manner they deem best," it was held that this did not authorize it to dispose of its property by lottery, lotteries being prohibited by statute.[3] Nor does authority given by a charter to carry on a certain business authorize it to carry it on in a way that would lead to injurious results to others, or materially affect their health, their comfort or their property.[4]

We shall hereafter consider the powers of corporations in connection with corporate meetings, and the management of corporate business; the power to sue and be sued, to use a corporate seal, to contract, and to make by-laws.

SEC. 48. **Distinction between corporate and copartnership associations.** — There are some points of resemblance as well as marked differences between corporate and mere partnership associations, which it may be well here to notice. The leading principles of the common law relating to both corporations and partnerships are borrowed from the Roman law. This is the inexhaustible fountain of various and valuable learning — the concentrated wisdom of eminent jurists, adapted to the convenience, the wants and the policy of a commercial people in all ages.[5]

The points of resemblance which may be noticed are: (1) each may be composed of many members associated together for some specific object; (2) the members may consist not only of natural persons, but of other corporations or partnerships; (3) the capital

[1] New York Trust, etc., Co. v. Helmer, 12 Hun (N. Y.), 35.

[2] Peruvian R. R. Co. v. Thames, etc., Ins. Co., L. R., 2 Ch. App. 617.

[3] State v. Krebs, 64 N. C. 604.

[4] Babcock v. New Jersey Stock Yard Co., 20 N. J. Eq. 296.

[5] Story on Part., chap. 1; 2 Kent's Com., § 33, p. 269; 1 Brown's Civ. and Adm. L. 142; Wood's Ins. Civ. L. 134.

of each may consist of a joint stock, which may be divided under by-laws or fundamental articles of agreement into shares, and transferred by assignment or delivery; (4) each may have a common name; (5) the liability of partners, like that of corporators, is frequently, as we have observed, limited by statute to a certain amount, as the amount of the stock subscribed or owned by them; (6) each usually acts by its agents, and may sue and be sued by the corporate and partnership name. On the other hand, there are, at least at common law, some marked distinctions between them. The members of a partnership are each agents for the partnership, and by their simple act may bind the firm, as any other agent may, within the scope of his authority, bind his principal. Each member is personally liable to the creditors of the firm. But as a general rule corporators are not personally liable to the creditors of the corporation, although they may be required to fulfill their obligations to it.[1] Nor is there any general authority for corporators to act as agents for the corporation.[2] In the case of partnerships each partner is the accredited agent of the other, and may bind them as such agent to the extent of their property, but the personal responsibility of stockholders is inconsistent with a body corporate at common law.[3] It very often happens, however, that the charter imposes liability upon stockholders in certain instances, and in some instances the statute provides that the stockholders shall, under certain circumstances, be

[1] The stockholders of a company incorporated under general laws are not partners even between themselves. Baker v. Backus, 32 Ill. 79. And where the statute contains no provision making the corporators individually liable, they are not so liable. Shaw v. Boylan, 16 Ind. 384. And such liability cannot be imposed by a by-law. Trustees, etc., v. Flint, 3 Metc. (Mass.) 539: Hopkins v. Whitesides, 1 Head, 31; Coburn v. Wheelock, 34 N. Y. 440.

[2] Ruby v. Portland, 15 Me. 306

[3] "When two or more persons desire to unite their means for the purpose of carrying on some enterprise or business which neither might be able to accomplish by himself alone, there are but two ways of doing it conveniently. The persons in question must be constituted a corporation by means of a legislative act or charter, or they must enter into a partnership by virtue of a contract. In either case their relations will be determined, partly by the express provisions of the charter or contract, and partly by the implied conditions tacitly annexed by law to each of these relations. Thus, while corporations and partnerships both agree in being relations voluntarily assumed by the members, and also in having for their object the association of several individuals for the purpose of co-operation in business, yet they differ so materially in their mode of creation, and in many other respects, that they require a separate consideration." Walker on Am. Law, p. 223.

responsible for the debts of the corporation, but, except where the statute so provides, liability does not attach to the stockholders. In other words, no liability attaches to stockholders for the debts of a corporation beyond that imposed by statute.

CHAPTER IV.

PERPETUAL SUCCESSION.

Sec. 49. The doctrine of immortality.
Sec. 50. The advantages of perpetual succession.

Sec. 49. **The doctrine of immortality.** — The capacity of perpetual succession is the distinctive feature of, and among the most important incidents connected with private corporations. This is sometimes expressed by the term "immortality," which, however, is not strictly correct, as applicable to corporations, as perpetual succession only means that they may continue, and rights and interests therein be transferred in succession, for an indefinite time, or so long as the corporation legally exists. But private corporations in this country are usually limited as to the period of their continuance by the statutes under which they are constituted, and they may also be terminated for various causes, before the period thus limited. They may, for instance, be dissolved for the want of members, for nonuser, or for misuser of their franchises.[1] By virtue of this capacity of succession a corporation continues the same legal person and identity, from the time of its creation until the time of its dissolution, notwithstanding changes in its members by death or otherwise, "so that it is unnecessary to make grants to them and their successors, or to declare their obligations binding on their successors."[2]

Sec. 50. **The advantages of perpetual succession.** — Perpetual succession, as we have seen, is that continuous existence which enables a corporation to manage its affairs and hold property, without the

[1] 2 Kyd on Corp. 445; Wilcox on Corp. 326; 1 Bl. Com. 485; 2 Kent's Com. 305; Boston Glass M'f'g Co. v. Langdon, 24 Pick. 52; McIntyre Poor School v. Zanesville Canal Co., 11 Ohio, 203. So they may surrender their franchises. People v. President, etc., of California College, 38 Cal. 166. For instances in which corporations may be dissolved, also for the necessary steps to secure the same, see chapter on Dissolution, etc., *post*.

[2] 1 Wilc. on Corp. 16.

necessity of perpetual conveyances for the purpose of transmitting it. By reason of this quality this ideal and artificial person remains, in its legal identity and personality, the same, though frequent changes may be made of its members; and although all of its members may be changed and new ones substituted for the old, it still legally remains one person. In reference to the advantages thus possessed by a corporation, Blackstone observes: "To show the advantages of these incorporations, let us consider the case of a college in either of our universities, founded *ad studendum et orandum*, for the encouragement and support of religion and learning. If this was a mere voluntary assembly, the individuals which compose it might indeed read, pray, study, and perform scholastic exercises together, so long as they could agree to do so; but they could neither frame nor receive any laws or rules of their conduct, none, at least, which could have any binding force, for want of coercive power to create a sufficient obligation. Neither could they be capable of retaining any privileges or immunities, for if such privileges be attacked, which of all this uncontrolled assembly has the ability to defend them? And when they are dispersed by death or otherwise, how shall they transfer these advantages to another set of students equally unconnected as themselves? So also with regard to holding estates or other property, if land be granted for purposes of religion or learning to twenty individuals not incorporated, there is no legal way of continuing the property to any other persons for the same purposes but by endless conveyances from one to the other as often as the hands are changed. But when they are consolidated and united into a corporation, they and their successors are considered as one person in law. As one person they have one will, which is collected from the sense of the majority of the individuals. This one will may establish rules and orders for the regulation of the whole, which are a sort of municipal laws for this little republic; or rules and statutes may be prescribed to it at its creation, which are then in the place of natural laws. The privileges and immunities, the estates and possessions of the corporation, when once vested in them, will be forever vested, without any new conveyance to new successions, for all the individual members that have existed from the foundation to the present

time, or that shall ever hereafter exist, are but one person in law, a person that never dies, in like manner as the river Thames is still the same river, though the parts which compose it are changing every instant."[1] The members of the corporation may change, but it remains the same legal person, whether the corporation is public or private It continues the same body politic from its creation to its dissolution, unaltered by the revolutions of ages or the successive changes of its members; therefore it is unnecessary to make grants to it and its successors, or to declare its obligations binding on its successors.[2] If a conveyance of land is made to an association of individuals not incorporated, their successors could not enjoy the land without a conveyance from each of the members composing it, and if numerous changes should be made in the members of the association, as many conveyances would be required. On the other hand, if the persons were incorporated so that in law they would constitute but one person, a conveyance of land to them in their corporate capacity and name would vest the title in the corporation, and it could thus be enjoyed by it so long as it had a legal being, or until it should make a conveyance of the same in its corporate name.

The advantages of this perpetual continuance and succession in the various undertakings of mankind at the present day will be manifest. In enterprises of great magnitude, where the associated wealth of many persons may be required, it enables the persons thus associated as one body to apply the capital thus pledged to the objects of the association; to hold real or personal property, and convey the same without the inconvenience of frequent conveyances by each member, or of perpetual conveyances, at each change of membership; "and its youth and vigor are perpetuated by a succession of fresh managers, while its finances can neither become legally diverted from its business, nor be withdrawn for personal gratification or necessity."[3]

[1] 1 Bl. Com. 467, 468.

[2] 1 Wilc. on Corp. 16; Grant on Corp. 5; Glover on Corp. 8; 7 Vin. Abr. 358; 1 Bl. Com. 468.

[3] Dartmouth College v. Woodward, 4 Wheat. 636; *ante*, § 1. In Dartmouth College v. Woodward, *supra*, Chief-Justice Marshall, in relation to the properties of corporations, observes: "Among the most important are immortality, properties by which a perpetual succession of persons are considered the same, and may act as a single individual. They enable a cor-

This right of perpetual succession is incident to every corporation; and they may take, hold, and transmit real or personal property, limited in that respect only, by the constitution or the act creating it. We shall hereafter more fully consider the power to acquire and hold property and the limitations on this power.

poration to manage its own affairs and to hold property without the perplexing intricacy, the hazardous and endless necessity of perpetual conveyances, for the purpose of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men, in succession, with these qualities and capacities, that corporations were invented and are in use. By these means a perpetual succession of individuals are capable of acting for the promotion of the particular object like one *immortal* being."

CHAPTER V.

MEMBERS. STOCKHOLDERS AND STOCK.

SEC. 51. Composition of private corporations.
SEC. 52. The government may constitute a member.
SEC. 53. Admission and election of members and officers.
SEC. 54. Disfranchisement and expulsion of members.
SEC. 55. *Quasi* corporations.
SEC. 56. Membership under general statutes.
SEC. 56a. Certificates of stock, nature of, etc.
SEC. 57. Management by directors.
SEC. 58. Shareholders are members — right to vote.
SEC. 59. Transfer books of company.
SEC. 60. Executor of stockholder, rights of.
SEC. 61. Right to vote by proxy or attorney.
SEC. 62. Matters that stockholders are presumed to know.
SEC. 63. Personal liabilities of, under statutes.
SEC. 64. Cause of action, accrues when.
SEC. 65. Intentional deceit as to organization, etc.
SEC. 66. General liabilities of, on subscription to stock.
SEC. 67. Conditions provided by the constating instruments.
SEC. 68. Special disabilities created by charter.
SEC. 69. Condition must be complied with.
SEC. 70. Conditional subscriptions.
SEC. 71. Company may accept payment in labor, etc.
SEC. 72. The condition may be waived.
SEC. 73. When the condition is void.
SEC. 74. Conditions which will avoid the whole contract.
SEC. 75. Conditional subscriptions continued.
SEC. 76. Fraudulent subscriptions.
SEC. 77. Subscriptions in contemplation of incorporation.
SEC. 78. Fraud in relation to subscriptions.
SEC. 79. Rules depend upon statutes or constating instruments.
SEC. 80. Defense to subscriptions on other grounds.
SEC. 81. Changes in charter.
SEC. 82. Assessments and calls for payments.
SEC. 83. Promise to pay, effect of, by whom calls should be made.
SEC. 84. Diversion of capital to other purposes.
SEC. 85. Forfeiture of stock.
SEC. 86. Assessments — rules in relation to.
SEC. 87. Power to lay, cannot be delegated.

SEC. 88. Statutory power must be followed.
SEC. 89. Several assessments may be laid at one time, when.
SEC. 90. Notice of assessments or calls.
SEC. 91. Sufficiency of.
SEC. 92. Rights of stockholders to dividends.
SEC. 93. Right of purchaser to dividends.
SEC. 94. Effect of declaring dividend.
SEC. 95. A stockholder may sue for his dividends.
SEC. 96. Income on stock in trust.
SEC. 97. Money in hands of directors.
SEC. 98. Right to sell and assign shares.
SEC. 99. Transfer of stock.
SEC. 100. Power of attorney to transfer, presumption arising from.
SEC. 101. Liabilities of assignees to corporations.
SEC. 102. Liability of purchasers from trustees.
SEC. 103. Right of trustee to pledge.
SEC. 104. Rights of *cestui que trust* against purchaser.
SEC. 105. Stockholder's right to vote — holding stock constitutes right.
SEC. 106. Right of stockholders to access to books.
SEC. 107. Holders of preferred stock.
SEC. 108. When it can be issued — dividends on.
SEC. 109. Scrip and preliminary subscriptions.
SEC. 110. Stock defined, etc.
SEC. 111. Issuing certificates of shares.
SEC. 112. Certificates unlawfully issued.
SEC. 113. Fraud in issuing stock certificates.
SEC. 114. Shares and income — character and quality of, as property.
SEC. 115. Interest of stockholders in corporate property.
SEC. 116. How stockholder's interest is conveyed.
SEC. 117. Character and quality of certificates
SEC. 118. Transfer of shares — how made.
SEC. 119. Effect of assignment and delivery.
SEC. 120. Refusal of the corporation to transfer.
SEC. 121. Contracts for the transfer of shares.
SEC. 122. Liens of the corporation on stock.
SEC. 123. Company may refuse to transfer, when.
SEC. 124. Instances where corporation has been held justified in refusing to transfer.
SEC. 125. Corporation may be compelled to transfer.
SEC. 126. Stock subject to execution against assignor, until transferred.
SEC. 127. Stockholder's right of action against the corporation.
SEC. 128. When stockholder may have injunction against corporation.
SEC. 129. Liability of the stockholders in equity to creditors.
SEC. 130. Overissued, and "watered stock."

SEC. 51. **Composition of private corporations.**—We have stated that a corporation is an association of persons constituting in law one

artificial person, endowed with certain capacities and incidents; and that the component parts or corporators need not necessarily be natural persons. On the contrary, this incorporeal, imaginary and artificial person may be composed of other artificial persons or corporations, or of copartnerships, as well as natural persons;[1] and they may consist of women and children as well as adult persons.[2]

SEC. 52. **The government may constitute a member.**—The government may be a stockholder in a corporation or company, and, when it assumes that relation, to that extent, it divests itself of its sovereign character, and takes that of a private citizen,[3] and the fact that the state is the sole owner of the stock of a corporation does not deprive a creditor of the corporation of his legal or equitable remedies,[4] nor does a debt due to such a corporation acquire any incidents, or priorities, not possessed by debts due to individuals or other corporations.[5] In the case of the original United States Bank, incorporated in 1791, the government became one of its members by subscription to its stock to the amount of one-fifth thereof.[6] This institution was not merely a commercial institution, but was mainly and essentially of a financial and political character; and like the banks of England, Venice and Genoa, it was chartered mainly for governmental purposes; and the United States became a member by subscribing to its stock through its authorized agent.[7] So, in case of the Planters' Bank of Georgia, and the State Bank of South Carolina. Al-

[1] Kyd on Corp. 32; Bank of U. S. v. Planters' Bank of Ga., 9 Wheat. 907.

[2] Ayliffe's Civ. L. 204; 1 Kyd on Corp. 32; 10 Co. R. 31 b.; Ogdensburg, Rome & Clayton R. R. Co. v. Frost, 21 Barb. (N. Y.) 541. An infant stands in the same relation to a corporation for a portion of whose stock he has subscribed, as he does to a person with whom he has contracted. If upon becoming of age he disclaims the contract, and restores the thing with all its advantages, his liability is terminated, and he cannot be made liable for calls. Birkenhead, etc., Railway Co. v. Brownrigg, 4 Exch. 426; London & North Western Railway Co. v. McMichael, 5 id. 855.

[3] Bank of U. S. v. Planters' Bank, 9 Wheat. 907; Louisville, etc., R. R. Co. v. Letson, 2 How. (U. S.) 497; Pennsylvania v. Wheeling Bridge Co., 13 id. 518.

[4] Curran v. Arkansas, 15 How. (U. S.) 304; Seymour v. Turnpike Co., 10 Ohio, 476.

[5] Central Bank of Georgia v. Little, 11 Ga. 346; Bank of Tennessee v. Dibrell, 3 Sneed, 379.

[6] Hildreth on Banks and Banking, 59 *et seq.*

[7] Hildreth on Banks and Banking, 58; Ency. Am., vol. 1, p. 548; Bank of U. S. v. Planters' Bank of Georgia, 9 Wheat. 907.

though these banks were chartered by the states of Georgia and South Carolina, respectively, the states creating them became members thereof.[1]

Several corporations may form a component part of one corporation,[2] and *if authorized to do so by the legislature*, a municipal corporation may become a stockholder in a private corporation[3] but not otherwise,[4] and in all cases, where the statute prescribes the manner in which the subscription shall be made, or the doing of certain things as a prerequisite to its validity, the statute must be substantially complied with, or the subscription will be void.[5] And the mayor or aldermen and commonalty may constitute a corporation; but in such a case "neither of them has any corporate capacity distinct from the other two, and, therefore, the mayor cannot in his political character of mayor take in succession any thing as a sole corporation; nor can the aldermen as a select body take any thing to them and their successors as an aggregate corporation."[6] There are various corporations in England, especially political or municipal, that are constituted of integral parts, without which parts the corporation would not be complete; nor has any of the integral parts power to act without the others.[7] Such is the mayor, aldermen and commonalty; they constitute three distinct parts.[8]

Under the former railroad system of England, the corporate organs of railroad corporations were three-fold, viz.: The general assembly of the company, the board of directors, and a duly constituted agent.[9] But in this country, especially private corporations for the pecuniary emolument of its members, are constituted on the unitary principle, and usually in all matters relating to the objects for which the corporation is instituted, the constating instruments confer on a limited number of directors the manage-

[1] State Bank S. C. v. Gibbs, 3 McCord (S. C.), 377; State Bank of N. C. v. Clark *et al.*, 1 Hawks (N. C.), 36.

[2] 1 Kyd on Corp. 36.

[3] Thomson v. Lee County, 3 Wall. 327; Cass v. Dillon, 21 Ohio St. 607; Prettyman v. Supervisors, 19 Ill. 406; State v. Common Council of Madison, 7 Wis. 688; Slack v. Maysville, etc., R. R. Co., 13 B. Monr. 9.

[4] Thomson v. Lee County, *ante;* Comm. v. Pittsburgh, 41 Penn. St. 278; Mississippi, etc., R. R. Co. v. Camden, 23 Ark. 300.

[5] Bullock v. Curry, 2 Metc. (Ky.) 171.

[6] 1 Kyd on Corp. 36.

[7] Id.

[8] Id.

[9] Wolf on Railways, 70; see *ante*, chap. 2.

ment of its affairs. In the absence of such an arrangement the members of it constitute the corporate body, and there are usually at least no separate or constituent parts. Membership is usually provided for by the general law under which it is instituted or by the articles or certificate of association, signed and filed for record by the original corporators in some public office or offices designated by the general law under which it is organized and constituted.

Sec. 53. **Admission and election of members and officers.** — The rules and doctrines of the common law in relation to the admission and election of members and officers in corporations of a religious or literary character has generally no application in this country to corporations instituted under general statutes for pecuniary profit. The number of the members under the former class is frequently limited by the charter, and when a vacancy occurs provision is usually made for filling it by an election of some person by the remaining corporators. But, in ordinary private statutory corporations, the joint stock, or capital, is divided into equal shares, and membership consists of the ownership of shares, either by original subscription and ownership, or by subsequent purchase of shares of the same.[1]

Sec. 54. **Disfranchisement or expulsion of members.** — The right to deprive a member of a corporation of his rights as such by expulsion depends upon the nature and character of the corporation, the provisions of the charter or act, and sometimes on the provisions of the by-laws. This right has no general application to ordinary statutory corporations with property interests in the stockholders created for pecuniary gain, with a joint stock, or capital divided into shares. In such a case, as we have noticed, ownership of shares constitutes membership; and the stockholders are secured all the rights of membership so long as they continue to own shares of stock. They may become such by purchase, and cease to be such when they transfer their stock certificates. The character or conduct of a stockholder cannot be made the legal ground of removal, nor can the company divest him of his in-

[1] Gilbert v. Manchester Iron Co., 11 Wend. 627; Sargent v. Franklin Ins. Co., 8 Pick. 90; Downing v. Potts, 23 N. J. L. 66; Green's Brice's Ultra Vires, 45–47.

terest without his assent.' But such power can, undoubtedly, be expressly conferred by the special act or by general acts of incorporation, or by virtue of the paramount authority of the legislature; and is, in fact, thus conferred, or by the articles of association, whenever the company or its directors, who represent it, are authorized to forfeit stock for the non-payment of dues;[2] in which case the rights of the owner cease on the forfeiture being legally declared. But in corporations of this class the power of expelling a stockholder only exists by virtue of the statute, and only for the causes named therein, and the decision of the officers of the corporation as to whether such cause actually existed is by no means final, unless expressly so provided by the statute. It would be a singular condition if a person who has become a stockholder in a moneyed corporation, by taking and paying for a certain number of shares of its stock, could be expelled therefrom and deprived of his property without compensation, unless the charter or laws under which the corporation was founded contained such a provision, so that he could be said to be charged with notice of such authority, and the causes for which the authority might be exercised.

The power to remove, however, otherwise than above stated, is seldom conferred by law, either upon the corporation or the board of directors of a joint-stock corporation, constituted purely for pecuniary profit.

SEC. 55. **Quasi corporations; right of expulsion therefrom.** — There is a class of *quasi* private corporations instituted for private purposes,

[1] 2 Kent's Com. 298; Green's Brice's Ultra Vires, 45–47.

[2] Evans v. Philadelphia Club, 50 Penn. St. 107; Society v. Commonwealth, 52 id. 125; Leech v. Harris, 2 Brewst. 571. See, also, Waterbury v. Express Co., 3 Abb. Pr. (N. S.) 163; State v. Justinian Soc., 15 La. Ann. 73. "With regard to what are called joint-stock incorporated companies, or, indeed, any corporation owning property, it cannot be pretended that a member can be expelled, and thus deprived of his interest in the stock or general fund in any case by a majority of the corporators, unless such power has been expressly conferred by the charter. And if an owner of stock could be excluded, without any provision in the charter, from participating in the election of officers, and in the other affairs of the company, he would still be entitled to the amount of his stock, and could recover it in an action against the corporation. Evans v. Phil. Club, 50 Penn. St. 107; Society v. Commonwealth, 52 id. 125; Hopkins v. Exter, L. R., 5 Eq. Cas. 63; Roehler v. Mechanics' Aid Soc., 22 Mich. 86; Davis v. Bank of Eng., 2 Bing. 393; State v. Tudor, 5 Day (Conn.), 329; Delacy v. Neuse Riv. Nav. Co., 1 Hawks (N. C.), 274; Ebaugh v. Hendel, 5 Watts, 43.

though not for direct pecuniary profits, where the aim and object of the corporators and the provisions of the charter or by-laws may warrant and authorize the expulsion of members. And where a charter of a society directed the mode of proceeding against a member charged with an offense indicated by it, and authorized the society to expel a member guilty of it, it was held that such a person might be lawfully expelled, and that, if the proceedings were regular, the action of the corporation in this respect could not be inquired into collaterally in a proceeding by *mandamus*, or in any other manner in the courts.[1] But a member of a corporation is entitled to notice of an intention to expel him, and to an opportunity to hear the evidence against him, and to be heard to disprove the charges upon which it is sought to deprive him of membership,[2] and the right of expulsion should be clear and unquestionable, and the law will not tolerate sharp and summary removals when the rights of a party are involved and he had had no reasonable opportunity to be heard.[3] And where a by-law of a chamber of commerce provided for the expulsion of members for the violation of it, it was held to be reasonable and valid and enforceable, even though the contract made in violation of its provisions was void by the statute of frauds, and although it was not made during the session of change of the chamber of commerce.[4] And where the charter stated that the corporation

[1] Leech v. Harris, 2 Brewst. (Penn.) 571.

[2] Delacy v. Neuse River Navigation Co., 1 Hawks (N. C.), 274; Southern Plankroad Co. v. Hixon, 5 Ind. 165; People v. St. Fransiscus' Benevolent Soc., 24 How. Pr. 216; Bartlett v. Medical Society, 32 N. Y. 187.

[3] Bartlett v. Medical Society, *ante*.

[4] Dickenson v. Chamber of Commerce, 29 Wis. 45.

In this case the by-law under which the proceedings were taken provided: "It shall be the duty of the board of directors to examine charges of misconduct in business matters, preferred against any member of the association, when made to the president or secretary in writing, by a member of the association, and if the party shall be found guilty of a violation of the rules, of failing to promptly comply with the terms of any contract, either verbal or written, or of making false or fictitious reports of sales or purchases, or of any other act contrary to the spirit which should govern all commercial transactions, they shall report the same to the association, either at a regular annual meeting or at a meeting called for that purpose; and the member shall be suspended or expelled, if so determined by a majority of the members present and voting, the number not being less than one hundred * * * No member shall be suspended or expelled without having an opportunity of being heard in his own defense, and any member having been expelled, shall be ineligible to membership until the association see proper to remove his disability."

The bill of the plaintiff was for an injunction, for the purpose of restraining the defendant from interfering

was instituted, among other things, to inculcate just and equitable principles in trade, it was held that a member might be expelled for obtaining goods under false pretenses, though the offense was not committed within the local jurisdiction of the corporation nor against a member thereof. And where a member of such a corporation performs an act in direct contravention of the purposes for which it is instituted, it has been held that it possesses the power to expel such member.[1] Where the regulations of an

with his rights and privileges as a member of the association, and from suspending or expelling him from the privileges thereof; and it averred in substance the intention of the defendant so to do on the ground of the plaintiff's failure to keep and perform two verbal contracts for the sale of wheat; that they were void by the statute of frauds; that the contracts were not made during any session of change of the chamber of commerce; that the contract did not in any way relate to the affairs or business of the corporation; that the contracts were made after the hours of change, and in the offices of the other parties to the contract. The court below refused, on motion, to dissolve the injunction. On appeal, COLE, J., observed: "If it was one of the objects of the association 'to inculcate just and equitable principles of, in trade,' it is apparent would be better attained by raising the standard of morality among its members, in requiring them to perform all their business engagements, whether legally binding upon them or not. Consequently, we can see no valid objection to the by-law which provides that if a member shall be found guilty of a failure to comply promptly with the terms of any contract, either verbal or written, it should constitute a good ground for the suspension or expulsion of such member from the privileges and benefits of the corporation. There is surely nothing unreasonable or unjust, nothing illegal or wrong, in such a by-law. Nor do we think there is any ground for saying that this by-law only had reference to such contracts as were made during a session of change of the chamber of commerce, and made upon the floor of the chamber of the corporation. It applied to all his business conduct and relations with the members of the association at least. And the plaintiff, after having voluntarily connected himself with the association, is bound to observe the rules and regulations adopted by it to secure the objects of its creation."

[1] People v. New York Loan Commercial, 18 Abb. Pr. 271. See, also, People, *ex rel.* Page, v. The Board of Trade of Chicago, 45 Ill. 112.

In Dickinson v. Chamber of Commerce, *supra*, it was further held, that a member might be expelled for the following causes, and that the power in this respect expressed in the charter was inherent in the corporation:

1. Where an offense is committed which has no immediate relation to a member's corporate duty, but is of so infamous a nature as to render him unfit for the society of honest men, and where no trial and conviction before a court is necessary, previous to the act of expulsion by the corporation.

2. Where the offense is against his duty, as corporator, he may be expelled on trial and conviction by the corporation.

3. When the offense is of a mixed nature against the member's duty as a corporator, and also indictable by the law of the land.

Where a medical society provided in their by-laws for the expulsion of members, it was held that it was not vested with arbitrary power or uncontrolled discretion in the matter; and that the courts might investigate the legality of the action of the corporate body taken under it.

The State v. Georgia Med. Soc., 38 Ga. 608 (1869).

asylum for aged seamen forbid inmates thereof to leave the premises without permission of certain officers, and enjoins quiet demeanor at the table on pain of expulsion, it was held that such regulations were reasonable, and that an expulsion for their breach was lawful.[1] So it has been held that the guardians of the poor may expel a member who has been guilty of charging the corporation with money as having been paid by him for it, which he never paid, but that he cannot be expelled for a mere misemployment of public moneys.[2] But it must be understood, as previously stated, that this power of removal cannot be exercised except where it is authorized by the charter or the general law under which the corporation is organized, nor unless the member has been guilty of some offense which affects the interests or good order of the corporation, or which is indictable by law.[3] Nor can the power conferred be exercised arbitrarily or unfairly, or without notice of the party sought to be removed, nor otherwise than in the manner specified in the charter or by-law.[4]

[1] People v. Sailors' Snug Harbor, 5 Abb. Pr. (N. S.) 119.

[2] Comm. v. Guardians of the Poor, 6 S. & R. 469.

[3] Comm. v. German Society, 15 Penn. St. 251; Comm. v. St. Patrick's Benevolent Society, 2 Binn. (Penn.) 441; Evans v. Philadelphia Club, 50 Penn. St. 107.

[4] Green v. African Methodist Society, 1 S. & R. 254; Comm. v. German Society, 15 Penn. St. 251; Comm. v. Penn. Beneficial Institution, 2 S. & R. 141; Comm. v. Guardians of the Poor, *ante*.

The charter of a private corporation provided that if any member should be found breaking the rules of the society, he should be served with a notice to attend, to answer at the next stated meeting, after which a decision should be made by ballot, and if two-thirds considered him guilty, he should be dealt with conformably to the by-laws. The by-laws provided that no member should be entitled to receive any benefit from the society, whose complaints are the result of intoxication, etc. A member was expelled, by the required majority, after due notice, and brought an action to recover the allowance granted to disabled members. *Held*, that the regularity of the proceedings to expel him could not be investigated in such action, and that the court had no jurisdiction, by action, to compel payment of the allowance. Black and White Smith Soc. v. Vandyke, 2 Whart. 309; S. P., Commonwealth v. Pike Beneficial Soc., 8 W. & S. 247.

A member of an association cannot be expelled on a report of a committee of investigation. The return to the *mandamus* must show that the relator had notice to appear and defend himself; that an assembly of the proper persons was duly held; the proceedings before them; a conviction of the offense; and an actual amotion by them. Especially is this the case where the charter of the society provides that the party charged shall have the right to be heard in his defense, be confronted with the witnesses against him, and of producing evidence in his favor. Commonwealth v. German Soc., 15 Penn. St. 251.

Under the constitution and by-laws of a beneficial society, each member was entitled to receive, in case of sickness, $3 per week, and each member was bound to contribute such monthly dues as the society might declare, and a member was entitled to twenty-four

The right of a corporation, not involving property rights, to expel members for cause is conceded by a large line of cases, but the offenses for which a member may be expelled must be specifically defined either in the charter or by the by-laws of the company, *or must be of such a character as violates some one of the express or implied conditions of membership*,[1] and in all organizations of this character there is an implied condition that the members will not violate their duty to the corporation,[2] consequently, it being

hours' notice before he could be expelled. In an action by a member for an illegal expulsion,—*Held*, that the secretary of the society, being liable for an assessment of the amount that might be recovered in the suit, was incompetent to testify on the part of the society; that where an expulsion took place in the absence of a member, without notice or the waiver thereof, the party expelled might recover damages to the extent of the injury; and that the want of notice rendered the expulsion invalid, and neither the minutes of the proceedings of the society, nor oral testimony of the statements of the secretary to the society at the time of the expulsion, was admissible in favor of the society. Washington Beneficial Soc. v. Bacher, 20 Penn. St. 425.

The Pennsylvania supreme court will not approve a charter for the incorporation of any association, where the articles contain an indefinite statement of the offenses that may result in expulsion; as that any member may be expelled who commits a misdemeanor or any other act that may prove injurious to his character or standing. Butchers' Beneficial Assoc., 38 Penn. St. 298; Beneficial Assoc. of Brotherly Unity, id. 299.

Where the charter of a corporation declared its purpose, among other things, to be "to adjust controversies between its members and to establish just and equitable principles in the cotton trade," and gave it power to make all proper and needful by-laws, not contrary to the constitution and laws of the state of New York or of the United States; and "to admit new members and expel any member in such manner as may be provided by the by-laws;" and the by-laws provided for expulsion for the improper conduct, but did not state what should be considered as such, it was held that there being in the charter or by-laws of the corporation no express or implied authority to determine who was the owner of a right to a membership in dispute, a member was not guilty of improper conduct warranting his expulsion, for resorting to the courts to prevent the corporation from disposing of such a right claimed by him.

That in refusing to submit to a report against his title, a member was not acting in antagonism to the corporate power of "adjusting controversies between its members" or of "establishing just and equitable principles in the cotton trade," and that his right to appeal to another tribunal, if to be foreclosed, should be so by explicit contract or agreement (not shown in this case), not by mere construction of language employed in a by-law, or by implication from something contained in it; for forfeitures depend upon clear and explicit language, and are even then looked upon with disfavor, and the presumption should be against the power to expel, except for the causes recognized in the adjudged cases. People v. N. Y. Cotton Exchange, 8 Hun (N. Y.), 216.

[1] People v. Medical Society of Erie, 32 N. Y. 194; The King v. Mayor of Liverpool, 2 Burr. 732; People v. New York Board of Underwriters, 7 Hun (N. Y.), 248; Dubree v. Reliance Engine Co., 1 W. N. C. (Penn.) 524; Comm. v. German Society, 15 Penn. St. 251.

[2] Rex v. Liverpool, *ante*; Comm. v. St. Patrick's Society, 2 Binn. (Penn.) 448.

the duty of a member to comply with a *lawful* by-law of the corporation, it follows that its violation by him constitutes a sufficient ground of expulsion.[1] But the courts retain a revisory power over the action of corporations in this respect, and, unless its action is legal, will compel the restoration of an expelled member by *mandamus*,[2] and, where the question as to whether

[1] In People v. N. Y. Board of Underwriters, *ante*, the relator, as president of the Relief Fire Insurance Company, was an incorporator in the defendant corporation, incorporated by the laws of New York. Its purposes were declared to be "to inculcate just and equitable principles in the business of insurance; to establish and maintain uniformity among its members in policies or contracts of insurance, and acquire, preserve and disseminate valuable information relative to the business in which they are engaged." And power was conferred upon it "to make all needful by-laws not contrary to the provisions of the act, or the constitution and laws of this state or of the United States." A by-law was adopted providing that the board might establish or alter rates of premiums for insurance by a majority of its members at any regular meeting, or one especially called for that purpose, and that such rates should be binding on all the members. The Relief Fire Insurance Company subscribed the charter and by-laws, and agreed to be governed by and to maintain all the rates, rules and regulations adopted by the board. The board adopted and prescribed rates which should be charged and received by its members as premiums for insurance upon property. And the relators afterward violated those rates by insuring two steamers for smaller amounts than those which had been established by the board. For that, after an investigation of the charge, the Relief Fire Insurance Company was expelled from its membership in the board. The defendant owned no other property than that allowed to be acquired for the purposes of its incorporation; and that amounted to the sum of about $50,000. It issued no stock, but was empowered to assess upon the organizations and agencies of which its membership consisted, not to exceed two per centum of the aggregate premiums returned by them as received, such sums as should be necessary to defray its expenses, and to sustain a fire patrol, if that should be provided. It was also permitted to take and hold real and personal property to an amount not exceeding $100,000, for the purposes of the corporation; and they were regulating and managing the business of insurance carried on by such organizations and agencies. The members owned none of the property acquired, and no earnings were to be made in which they could in any form participate. But the assessments collected were designed to pay the expenses to which the corporation should be subjected in the management of its affairs, and the acquisition of real estate and personal property required for that purpose. The court held that, under this state of facts, no property interests were involved, and the corporation, being in no sense a trading corporation, it clearly had the power to expel a member for the violation of the by-law named. The inquiry in such cases is whether the by-law is within the scope of the corporate powers of the company. People v. N. Y. Commercial Assoc., 18 Abb. Pr. (N. Y.) 271. It has been held a sufficient cause for the disfranchisement of a member of a beneficial society, that he feigned sickness, or drew relief after his recovery from actual sickness. Society for the Visitation of the Sick v. Comm., 52 Penn. St. 125. But a member of a social club who has paid a large sum for admission cannot be expelled merely for disorderly conduct which does not affect the interests of the corporation. Evans v. Philadelphia Club, 50 Penn. St. 107. Nor because he refuses to resign. Id.

[2] State v. Georgia Medical College, 38 Ga. 608.

a member has violated a by-law is one of construction merely, the society will not be permitted to exercise an uncontrollable discretion in the construction and enforcement of such by-law, and, unless its construction thereof is legal, its action will be neutralized by the courts.[1] Thus, where the constitution of an incorporated society made "slander against the society" by a member, an offense for which he may be fined or expelled, it was held that in order to constitute a breach thereof an offense analogous to slander at the common law must be established, and that an expulsion for an offense short of that was without authority.[2] The power of amotion, whether relating to the disfranchisement of a member, or the removal of an officer of a corporation, is judicial in in its character, and, when exercised by the corporation, the member must be given a reasonable opportunity to meet the charges against him, and the matter must be fairly and judicially decided, and if it appears that in fact the charges were not sufficient or were not sustained, or that the action of the corporation was unfair, the courts will restore the member to all his rights.[3] A member cannot be expelled arbitrarily, without charges being preferred against him and without notice and an opportunity to be heard in answer thereto,[4] and the records of the corporation should show that all the requisite steps were taken for, and the grounds of a legal expulsion,[5] and if it appears that he was expelled by default, no witnesses being heard in support of the charges,[6] or that he was expelled for the violation of an illegal by-law,[7] or without complying with the requirements of the charter or by-laws in reference to the filing of charges and the hearing thereon, the expulsion will be set aside by the courts.[8]

[1] State v. Georgia Med. Col., *ante.*

[2] People v. Mechanics' Aid Society, 22 Mich. 86.

[3] State v. Adams, 44 Mo. 570; Riddell v. Harmony Fire Ins. Co., 8 Phila. 310.

[4] People v. St. Franciscus Benevolent Soc., 24 How. Pr. 216; People v. Benevolent Soc., 3 Hun (N. Y.), 361; Comm. v. German Society, *ante;* Riddell v. Harmony Fire Ins. Co., *ante;* Washington, etc., Soc. v. Bacher, 20 Penn. St. 425.

[5] People v. Mechanics' Aid Society, 22 Mich. 86.

[6] People v. Benevolent Soc., 3 Hun (N. Y.), 361; People v. Young Men's, etc., Soc., 65 Barb. 357.

[7] People v. St. Franciscus Benevolent Soc., 24 How. Pr. 216.

[8] Comm. v. German Soc., 15 Penn. St. 251. In People v. American Institute, 44 How. Pr. 468, a corporation having adopted Cushing's Manual as its rules of order, where a member was expelled for improper language used at a meeting of the society, the court restored him on the ground that the words were not reduced to writing and acted upon at the meeting at which they were spoken.

But, in Pennsylvania, a member of such a corporation cannot be expelled for the non-payment of dues without notice to him and a vote of the society.[1] And even where the right to expel for just cause exists, it cannot be exercised in an arbitrary and summary manner, but the party charged, with the violation of duty under the charter or by-laws of the association should have an opportunity to be heard in answer to the charges.[2]

When a member of a corporation is wrongfully expelled therefrom or illegally expelled, he may be restored to membership by *mandamus*,[3] and even though a member has been technically guilty of a breach of the by-laws or regulations of the corporation, yet if the breach is trivial, and not within the spirit thereof, his restoration to membership will be ordered. Thus, where a member was expelled for defrauding the company out of fifty cents, it was held not a sufficient cause of disfranchisement and his restoration to membership was ordered.[4]

[1] Comm. v. Penn. Ben. Inst., 2 S. & R. (Penn.) 141; Comm. v. German Society, 15 Penn. St. 251; Diligent Fire Ins. Co. v. Commonwealth, 75 id. 291.

[2] Southern Plankroad Co. v. Hixon, 5 Ind. 165; People v. St. Franciscus' Benevolent Soc., 24 How. Pr. 216; Delacy v. Neuse River Nav. Co., 1 Hawks (N. C.), 274; Bartlett v. Med. Soc., 32 N. Y. 187; People v. Sailors' Snug Harbor, 5 Abb. Pr. (N. S.) 119. And when the articles of a corporation authorized expulsion for scandalous and improper proceedings which might injure the reputation of the society, a member may be expelled for altering the amount of a physician's bill from $4 to $40; and for presenting the bill to the president as the basis of a claim. Commonwealth v. Philanthropic Soc., 5 Binn. 486. See, also, Black & White Smith's Soc. v. Van Dyke, 2 Whart. 309; Commonwealth v. Pike Beneficial Soc., 8 W. & S. 247; Commonwealth v. German Soc., 15 Penn. St. 251; Washington Beneficial Soc. v. Bacher, 20 id. 425; Butchers' Beneficial Assoc., 38 id. 298; Society for Visitation of the Sick v. Commonwealth, 52 id. 125.

[3] Comm. v. German Soc., 15 Penn. St. 251; People v. Medical Society of Erie, 24 Barb. 570; People v. St. Franciscus' Benevolent Soc., 24 How. Pr. 216; Sibley v. Carteret Club of Elizabeth, 40 N. J. L. 295; Sturges v. Board of Trade, 86 Ill. 441. And a court of equity has no power to suspend an officer of a corporation. The power of amotion belongs to the corporation within the scope of its legal power. Griffin v. St. Louis Vine, etc., Assoc., 4 Mo. App. 495. But courts will not generally interfere to control the manner of enforcing the by-laws of a purely voluntary association, which is not organized for the purposes of business, but for the purpose of inculcating certain principles among its members. People v. Board of Trade, 80 Ill. 134.

[4] Comm. v. German Society, *ante*. A private corporation or club, owning property and at liberty to accumulate more, expelled one of its members for quarreling with and striking another member within the walls of the club-house. *Held*, that the club had no authority for such expulsion, in the absence of any provision therefor in the charter, notwithstanding that it was provided for by a by-law; and a *mandamus* was awarded for the restoration of such member. Evans v. Philadelphia Club, 50 Penn. St. 107.

The foregoing decision was affirmed by the court by operation at law, the

SEC. 56. **Membership under general statutes.**— Where a corporation is instituted, under general statutes, they and the articles authorized by them furnish the measure and limitations of the general powers and privileges of the corporators and they generally provide as to membership and the rights and privileges of members. These instruments become the supreme law of the corporation, limited and controlled only by the constitution of the state creating it, or the constitution of the federal government.

What constitutes membership usually depends upon the nature of the corporation, the provisions of the general law, the articles or certificate of original association, or the rules or by-laws adopted by the corporators, not inconsistent with the general or fundamental law. The parties subscribing articles of association may adopt by-laws, providing for and regulating membership; and if such authority is not expressly given, it would be among the implied and inherent powers of a corporation. The statutes or regulations of private corporations, for pecuniary gain, usually provide for the amount of the capital stock of the corporation, and for its division into equal shares of a certain amount, and that stockholders are members and entitled to a voice or vote in the management of the corporate affairs.[1]

judges being equally divided in opinion. Ib.

On an application for a rule to show cause why a writ of *mandamus* should not issue to a literary corporation, commanding it to restore an expelled member to the rights of membership, where it appeared that the proceedings of the corporation, which first suspended the member from debate, and afterward wholly disfranchised him, were irregular; and where a certain letter written by the applicant to the secretary, which was the ground of his disfranchisement, was not before the court, the rule asked for was made absolute; that, in order to enable the corporation to set out, in its return to the writ, specifically the grounds of its action, the writ was ordered to issue in the alternative, either to restore the applicant to his rights of membership, or to show good cause to the contrary. Sleeper v. Franklin Lyceum, 7 R. I. 523.

[1] "In all bridge, railroad and turnpike companies, in all bank, insurance and manufacturing companies, and, generally, in corporations having a capital stock and looking to profits, membership is constituted by a transfer of shares according to the by-laws, without any election on the part of the corporation itself." Opinion of SHAW, Ch. J., in Boston Overseers, etc., v. Sears, 22 Pick. 122. Any person who owns stock in a corporation, whether he acquired it by subscription, purchase or transfer, is a member thereof, and is entitled to all the rights and privileges of a member. Gilbert v. Manchester Iron Co., 11 Wend. 627. Nor is it necessary that he should have a certificate of his shares, if he is an original subscriber to the stock. Agricultural Bank v. Burr, 24 Me. 256; Chester Glass Co. v. Dewey, 16 Mass. 94. See Easton Plankroad Co. v. Vaughan, 14 N. Y. 546; Chase v. Sycamore & C. R. R. Co., 38 Ill. 215.

Sec. 56 *a*. Certificates of stock — nature of, etc. Certificates of stock are not strictly commercial paper, but they approximate to it as nearly as is practicable,[1] and are transferable by assignment unless the charter or the by-laws, made in pursuance of a power conferred therein, provides a particular mode of transfer, in which case such mode must be pursued. But, if the certificate itself contains a statement as to how a transfer may be made, such statement is binding upon the company and constitutes the regulation on the subject,[2] and the company will not be permitted to assert a claim in violation of its own regulations, especially when the violation is a matter essential to the protection of the party against whom the claim is asserted.[3] If the charter confers the power upon the directors to make by-laws, they may also waive compliance therewith. If stock has been transferred in the mode provided by the charter or by-laws to a person having no notice of any claim thereon by the company, it cannot refuse to enter the transfer upon its transfer-books upon the ground that it has a lien thereon, unless such lien is given by the charter.[4] A lien may be given by a by-law,[5] but, except where the purchaser has notice of the lien before his purchase of the stock, or the certificate on its face contains something which should put him upon inquiry as to the existence of a lien thereon, he will not be prejudiced by such lien.[6] A mere assignment of stock, accompanied by delivery of the certificate to the purchaser, is valid between the parties, and also against attaching creditors of the assignor with notice, although no transfer has been made upon the books

[1] Lanier v. Bank, 11 Wall. 369. They are likened to bills of lading and other *quasi* negotiable securities. Ross v. S. W. R. R. Co., 53 Ga. 514; Black v. Zacharie, 3 How. (U. S.) 483; N. Y. & N. H. R. R. Co. v. Schuyler, 34 N. Y. 30; Duke v. Cahawba Navigation Co., 10 Ala. 82; Lanier v. Bank, 11 Wall. 369; Broadway Bank v. McElrath, 13 N. J. Eq. 24; Pratt v. Tilt, 12 C. E. Greene, 393; Finney's Appeal, 59 Penn. St. 598; Smith v. Crescent City Co., 30 La. Ann. 1378; Conant v. Seneca Co. Bank, 1 Ohio St. 298; McNeil v. Tenth Nat. Bank, 46 N. Y. 325; Winter v. Belmont Mining Co., 53 Cal. 428; Fraser v. Charleston, 11 S. C. 486.

[2] Bank of Holly Springs v. Pinson, 58 Miss. 421; 38 Am. Rep. 330; Vansands v. Middlesex Co. Bank, 25 Conn. 144.

[3] Bank of Holly Springs v. Pinson, *ante*.

[4] Union Bank v. Laird, 2 Wheat. 390; Steamship Dock Co. v. Heron, 52 Penn. St. 280.

[5] Child v. Hudson Bay Co., 2 P. Wms. 12.

[6] But see Steamship Dock Co. v. Heron, 52 Penn. St. 280.

as required by the charter or by-laws,[1] and the same rule prevails as to an assignee in bankruptcy. Thus, the owner of a national bank stock delivered his certificate with a power of attorney to transfer the stock as collateral security for his note. The by-laws of the bank provided that stock was assignable only on its books subject to the national banking act, and that a transfer-book should be kept and that the old certificates should be surrendered and new ones issued. The owner of the stock afterward went into bankruptcy. On notice to him and the assignee, the payee sold the stock, and the bank refusing the demand of the assignee for a transfer, transferred it to the purchasers. The court held that the bank was not liable to the assignee for a conversion.[2] The certificate is merely evidence of the holder's interest in the corporation, his actual interest therein is represented by his "shares of stock" and the certificate is only evidence of such interest and is by no means conclusive, because the shares may have been levied upon and sold upon execution, so that the certificate represents no value whatever, or the corporation by virtue of its charter may have a lien thereon for its full value, so that the real evidence of a party's property interest in the stock of a corporation is the stock-book of the company. For this reason it is held that an action for conversion, as enlarged by codes, lies for the conversion of the "shares of stock," rather than for

[1] Sargent v. Essex Marine Ry., 9 Pick. 202; Bullard v. Bank, 18 Wall. 589. It seems that in some of the states an equitable assignment of stock is good as against the attaching creditors of the assignor. Especially is this the rule in Massachusetts. Boston Music Hall Assoc. v. Cory, 129 Mass. 435; Dickinson v. Central Nat. Bank, id. 279; Kingman v. Perkins, 105 id. 111; Thayer v. Daniels, 113 id. 129, and in Westoby v. Day, 2 E. & B. 605. It is said to have been the rule ever since the time of Richard I, that an equitable assignment of a chose in action should prevail against an attachment. In Vermont, Rice v. Courtis, 32 Vt. 464; Illinois, People's Bank v. Gridley, 91 Ill 457; and Connecticut, Colt v. Ives, 31 Conn. 25; and in Pennsylvania this rule also prevails, unless the corporation has notice of the assignment. Littell v. Scranton Gas, etc., Co., 2 Luz. L. Obs. 82. In Deane v. Hall, 3 Russ. 1, which is followed in Foster v. Cackerell 3 Cl. & F. 456, it is held that of two innocent purchasers, he shall be preferred who first gave notice to the trustee or holder of the legal title. But as it cannot be presumed that the law, statutory or common, intends that one man's property shall be taken to pay another man's debts, unless so explicitly stated, it is held that the right extends to the equitable, as well as the legal right. Scott v. Lord Hastings, 4 K. & J. 633; Robinson v. Nesbitt, L. R., 3 C. P. 264; Gill v. Continental Gas Co., L. R., 7 Exch. 332; Dunster v. Lord Glengall, 3 Ir. Ch. 47; Bickering v. Ilfracombe Ry. Co., L. R., 3 C. P. 235; Eyre v. McDonald, 9 H. L. 619; Beavan v. Earl of Oxford, 6 D. G. M. & G. 524; Cornick v. Richards, 3 Lea (Tenn.), 1.

[2] Dickinson v. Central Nat. Bank, 129 Mass. 279; 37 Am. Rep. 351.

the certificates of stock,[1] but the action of trover, as it exists at common law, will lie for a conversion of the certificates of stock and the rule of damages is the market value of the stock, such certificates being treated as goods, wares and merchandise.[2]

In Pennsylvania it is held that trover will not lie for "shares of stock." SHARSWOOD, J., says "A share of stock is an incorporeal, intangible thing. It is a right to a certain proportion of the capital stock of a corporation, never realized except upon the dissolution and winding up of the corporation, with the right to receive, in the meantime, such profits as may be made and declared in the shape of dividends. Trover can no more be maintained for a share of the capital stock of a corporation, than it can for the interest of a partner in a commercial firm."[3] In commenting upon this decision, MCKEE, J., in a California case,[4] says:

"Upon the idea that shares of stock cannot be taken away or wrongfully detained from the owner or that they cannot be lost by the owner or found by a stranger, there is no doubt of the soundness of that decision. But the fiction on which the action of trover was founded, namely, that a defendant had found the property of another, which was lost, has become, in the progress of law, an unmeaning thing, which has been by most courts discarded; so that the action no longer exists as it did at common law, but has been developed into a remedy for the conversion of every species of personal property. It lies for bank notes sealed in a letter;[5] for negotiable instruments;[6] for a judgment;[7] for a promissory note which has been paid;[8] for copies of a creditor's account;[9] for a writ of execution issued on a judgment,[10] and for certificates of shares of stock.[11]

"At the same time that the action has been thus expended, the

[1] Payne v. Elliott, 54 Cal. 339; 35 Am. Rep. 80; Ruhn v. McAllister, 1 Utah, 275; Boylan v. Hagnel, 8 Nev. 352.

[2] North v. Forest, 15 Conn. 400; Tisdale v. Harris, 20 Pick. 9; Freeman v. Harwood, 49 Me. 195; Maryland Ins. Co. v. Dalrymple, 25 Md. 242; Boardman v. Cutter, 128 Mass. 388; Somerby v. Buntin, 118 id. 279.

[3] Neiler v. Kelly, 69 Penn. St. 407.

[4] Payne v. Elliott, 54 Cal. 339; 35 Am. Rep. 80.

[5] Moody v. Keener, 7 Port. (Ala.) 218.

[6] Comparet v. Burr, 5 Blackf. 419.

[7] Hudspeth v. Wilson, 2 Dev. (N. C.) 372.

[8] Pierce v. Gibson, 9 Vt. 216.

[9] Fullam v. Cummings, 16 Vt. 697.

[10] Keeler v. Fassett, 21 Vt. 539.

[11] Anderson v. Nicholas, 28 N. Y. 600; Atkins v. Gamble, 42 Cal. 98; Von Schmidt v. Bourn, 50 id. 616.

words 'things in action' have undergone such a development from their original meaning, that they now represent things to the imagination in the light of tangible objects; and as such, they are the subject of contract, sale, gift, mortgage, bailment, and pledge; and under the provisions of our codes they are personal property, subject to taxation, attachment, execution, levy and sale.[1]

"It is, therefore, the 'shares of stock' which constitute the property which belongs to the shareholder. Otherwise, the property would be in the certificate; but the certificate is only evidence of the property; and it is not the only evidence, for a transfer on the books of the corporation, without the issuance of a certificate, vests title in the shareholder; the certificate is, therefore, but additional evidence of title, and if trover is maintainable for the certificate, there is no valid reason why it is not also maintainable for the thing itself which the certificate represents."

SEC. 57. **Management by directors.** — The rights and privileges of members are generally left to be provided for by the by-laws which may be adopted by the corporators. By virtue, also, of such statutes, articles or by-laws, the management of the business of the corporation may be vested in a limited number of the members, or in a board of directors, who are appointed by the members at some general meeting called for that purpose. By such means, the authority to manage the affairs of the corporation which, on general principles, would rest in the members, is conferred upon a board of directors thus appointed, whose action, however, is by virtue of the election or appointment authorized by the corporators, and is the action of the corporation, binding the same in every respect as though it were done by all its members, lawfully assembled and acting for the corporate body. Whether the business is managed by the corporators directly, or indirectly, by a board of managers or directors, the management is considered to be in accordance with the will of the majority of the members or stockholders; and that will must be expressed in either case by a majority of either, at a lawful meeting, unless it is otherwise provided in the law constituting it, or by by-laws lawfully adopted.

[1] §§ 542, 688, Code Civ. Proc.

As it is usually quite impracticable for the members of a corporation to meet and express its will by a majority of its members or stockholders, the convenience, if not the necessity, of having a small body of such members to represent and act for them will be apparent. The wisdom of such an arrangement cannot be questioned. For the various matters that must arise in the extensive operations of many of our private corporations would render it almost impossible practically to conduct its affairs, unless the general management was confided to a limited number. The members or stockholders are usually difficult to be found, and it would be more difficult to convene them for corporate business, on all the various questions that would usually arise, calling for corporate action.

Sec. 58. **Shareholders are members ; right to vote.**— As the power to appoint directors would, on general principles of the law, even in the absence of special regulations, vest in the members, and as membership consists usually in ownership of shares,[1] and the right to and ownership of such shares is evidenced by certificates of stock duly prepared and authenticated by the proper agents, and as such certificates may be held by the original owners or transferred to other parties by assignment, and the assignees thereby become stockholders and members of the same and entitled to a voice or vote for each share so held by them, at all general corporate meetings, it becomes necessary for the adoption of some rule or by-law, providing for such transfer of the certificates of such stock, and for some record of the same on proper books of the corporation kept for such purpose. It is usual, therefore, to provide, either by the articles or the by-laws, that suitable books shall be kept for the registry and transfer of the capital stock of the company, and that every transfer of such stock to be valid shall be made upon such books, and signed by the assignor of such shares, or by his agent, duly constituted in writing.[2] It is possible

[1] Schaeffer v. Missouri, etc., Ins. Co., 46 Mo. 248.

[2] Every person in whose name stock stands upon the books of a corporation is, as to the corporation, a stockholder, and entitled to all the rights and subject to all the liabilities as such. State v. Ferris, 42 Conn. 560. But a mere subscription to stock, of itself, does not constitute a subscriber a stockholder, but entitles him to become one upon complying with the terms and conditions of the subscription. Busey v. Hooper, 35 Md. 15. As between a cor-

that, under the general provisions of statutes, the powers and franchises, as well as the capital stock, may be possessed and owned by one person constituting it, in one sense, a sole corporation, but with the powers and privileges of an aggregate one. In fact, it is expressly provided by the statutes of some of the states, that the rights and powers conferred by the incorporating statutes may be enjoyed by a single person, who may, by complying with the provisions of the statutes so far as the same can be applicable to the incorporation of a single person, become thereby incorporated.[1]

poration and a corporator, the stock-book is primary, and the certificate secondary evidence of their relation. Bank of Commerce's Appeal, 73 Penn. St. 59. The right of a stockholder to vote is not destroyed by the circumstance that he has become bankrupt and that his assignee has a right to demand a transfer, so long as the stock stands upon the books of the corporation in the name of the bankrupt. "The party who appears to be the owner by the books of the corporation," says PARK, C. J., in State v. Ferris, 42 Conn. 568, "has the right to be treated as a stockholder and to vote on whatever stock stands in his name. Marlborough Mfg. Co. v. Smith, 2 Conn. 579; Northrop v. Newtown, etc., Turnpike Co., 3 id. 544; Vansands v. Middlesex Co. Bank, 26 id. 144; *Ex parte* Willcocks, 7 Cow. 402; Matter of Barker, 6 Wend. 509;" Gilbert v. Manchester Iron Co., 11 id. 629; Hoppin v. Buffum, 9 R. I. 518; Fisher v. Essex Bank, 9 Gray, 373. Even though he has parted with his title or pledged his stock, so long as it stands in his name upon the books of the corporation. *Ex parte* Willcocks, *ante;* Gilbert v. Manchester Iron Mfg. Co., *ante.* "What matters it," says PARK, C. J., in State v. Ferris, *ante*, "to the other stockholders which of these parties voted on the stock so long as one party or the other manifestly had the right to vote and both were agreed as to who should vote." It has been held that a person who has pledged his stock to the corporation as collateral security for a loan not yet due may vote upon the stock. Scholfield v. Union Bank, 2 Cranch's C. C. 115. Or to a third person. Matter of Barker, 6 Wend. 509; *Ex parte* Willcocks, *ante.* So, too, it has been held that the mortgagor of stock may vote thereon at all elections until his title thereto has been divested by foreclosure. Varnell v. Thompson, *ante.* And, generally, it may be said that so long as the stockholder in whose name stock stands upon the books of the company retains any title to the stock, legal or equitable, he may vote thereon; but, after he has parted with all his title thereto, he has no right to vote thereon, although the stock still stands in his name upon the books. People v. Devin, 17 Ill. 84. The certificates of shares are usually signed by the president or vice-president and countersigned by the secretary of the company. Union Bank v. Laird, 2 Wheat. 390; Black v. Zacharie, 3 How. (U. S.) 513; Fisher v. Essex Bank, 5 Gray, 373; Chouteau Spring Co. v. Harris, 20 Mo. 382, Grant v. Mechanics' Bank, 15 S. & R. 143; Duke v. Cahaba Nav. Co., 14 Ala. 82; Arnold v. Suffolk Bank, 27 Barb. 424; Bank of Utica v. Smalley, 2 Cow. 770; Gilbert v. Manchester Manuf. Co., 11 Wend. 627; Sargent v. Franklin Ins. Co., 8 Pick. 90.

[1] See Code Iowa, § 1088, which provides as follows: "A single individual may entitle himself to all the advantages of this chapter (relating to incorporations for pecuniary profit) provided he complies substantially with all its requirements, omitting those which from the nature of the case are inapplicable."

Sec. 59. **Transfer on books of company.** — As against all persons but the corporation, the sale of shares is completed when the seller has subscribed the proper authority to the transfer agents of the company, to make a transfer on the books, and has delivered it, together with the old certificate, to the buyer, and the conditions of the sale have been complied with. Such acts transfer the title, subject only to such rights as the company may have to refuse assent to the transfer, and neither a formal transfer nor the issue of a new certificate are necessary to perfect the buyer's title.[1]

As between buyer and seller, this principle applies even though the statute provides that no transfer of stock shall be valid for any purpose whatever until it shall have been entered in the book prescribed and in accordance with the law. Such a statute is held to be confined in its application to the security and ease of remedy of creditors, and for the information of stockholders and creditors, and does not affect, as between the vendor and vendee, the validity of an assignment of the stock, and after such an assignment the vendee assumes and holds to the corporation and its creditors the same relation as the vendor held before the assignment, and if, by reason of his neglect to have the stock regularly transferred on the books, the vendor is subjected to liability for any of the debts of the corporation, the vendee is liable to him therefor.[2] The rule may be said to be that an assignment of stock, unaccompanied by a transfer upon the books of the corporation, vests in the assignee only an equitable title as against the company, *but an absolute legal ownership* as against the assignor, and this too although there is no manual delivery of the certificate.[3] The provision for the transfer of stock on the books of the corporation is necessary in order that the officers or agents of the corporation may know on whom to serve notices of the general meetings, and to secure the members against fraud, which otherwise might be perpetrated

[1] Ross v. Southwestern R. R. Co., 53 Ga. 514; Hill & Newichawanick Co., 48 How. Pr. 427; Bruce v. Smith, 44 Ind. 1; Leitch v. Welles, 48 N. Y. 585; Scripture v. Francestown Soapstone Co., 50 N. H. 571; Bank of America v. McNeil, 10 Bush, 54; McNeil v. Tenth Nat. Bank, 46 N. Y. 325.

[2] Johnson v. Underhill, 52 N. Y. 203.

[3] Grymes v. Hone, 49 N. Y. 17.

upon them. For, as we shall have occasion hereafter to notice more fully, the members are generally entitled to notice of corporate meetings, and to vote at such meetings the number of votes which the stock they may own may entitle them to, and a majority of such votes may control the action and the policy of the corporate body, either directly by the stockholders or indirectly by the duly constituted board of directors.[1]

We have said that ownership of stock constitutes membership and entitles the owner to vote at all corporate meetings.[2] It has been held that when a holder of a certificate of corporate stock really holds it for another, but such trust does not appear on the books of the company, and it is not disclosed by the trustee, votes of such trustee on such stock at a corporate meeting are valid; and that especially would this be the case where it did not appear that the votes thus cast were not in accordance with the wishes of the *cestui que trust*, or that the latter was not satisfied that the stock should thus stand in the name of the person thus voting,[3] and a subscriber to stock to whom a regular certificate has been issued is entitled to vote thereon, although he has paid nothing on the stock.[4] But merely subscribing for a certain number of shares of the stock of a corporation does not make a person a member of a corporation so as to entitle him to the privileges, or impose upon him the liabilities of a member,[5] especially if any thing remains to be done before he

[1] In Massachusetts, it appears that it is not necessary, in order to constitute a person a member of a corporation for manufacturing purposes, that he should have a certificate of his shares. Chester Glass Co. v. Dewey, 16 Mass. 94.

But where the statute requires every subscriber to pay a certain sum of money to become a member, the mere subscription to stock of the company, without payment of the sum required, does not constitute the party subscribing a member on his subscription. Highland Turnpike Co. v. McKean, 11 Johns. 98; Hibernia Turnp. Co. v. Henderson, 8 S. & R. 219; S. C., 13 id. 434.

In case of a dispute as to the right to vote at a corporate meeting, the books of the corporation are *prima facie* evidence as to who possesses that right. Hoppin v. Buffum, 9 R. I. 513.

A combination between a portion of the members of a mining corporation to secure a board of directors and the management of the property was held not to be void as against public policy. Faulds v. Yates, 57 Ill. 416.

[2] A subscriber who has paid part of his subscription, but whose stock is afterward forfeited for the non-payment of calls, is not a stockholder within the meaning of the New York statutes. Mills v. Stewart, 41 N. Y. 384.

[3] Wilson v. Proprietors of Central Bridge, 9 R. I. 590.

[4] Downing v. Potts, 23 N. J. L. 66.

[5] Chase v. Sycamone R. R. Co., 38 Ill. 215; Thrasher v. Pike, etc., R. R. Co., 25 id. 393.

is entitled to a certificate of the stock subscribed for. Thus, if the statute or the terms of the subscription require that each person subscribing for stock shall pay a certain amount upon each share at the time of subscribing, those who do not pay are not members,[1] nor does a person who subscribes for stock in the name of a third person, but without authority from him, become a member of the corporation under such subscription.[2] But, where a person subscribes for stock and complies with the requirements of the charter or statute relative thereto, he immediately becomes a member of the corporation, although no certificate of the stock subscribed for has been issued to him. A person becomes a member of a corporation by accepting a transfer of stock therein, and thereupon becomes entitled to all benefits, and subject to all liabilities which such relation creates.[3] But where stock stands in the name of a person as trustee for the corporation, such trustee cannot vote thereon,[4] nor can any one vote upon stock standing upon the books in the name of the corporation itself.[5] Where stock stands in the name of a person as "cashier," "president," etc., these words are treated as mere matter of description, and his successor in the office cannot vote thereon until a transfer is made.[6] The question as to the right to vote at such meetings is determined by reference to the books of the company which, under the regulations in reference to the issue and transfer of stock, should show the party who owns the same; and they are usually at least *prima facie* evidence as to who is possessed of the right to vote on shares.[7] But in New York, while by statute the inspectors are bound by the transfer book, yet the courts may go behind and determine whether a transfer appearing thereon was a sale or only a pledge, and whether, under the circumstances, the pledgor or the pledgee was entitled to vote thereon,[8] and, independent of any statutory

[1] Hibernia Turnpike Co. v. Henderson, 8 S. & R. 219; Highland Turnpike Co. v. McKean, 11 Johns. 100; Goshen Turnpike Co. v. Hurtin, 9 id. 218.

[2] Salem Mill Dam Corp'n v. Ropes, 9 Pick. 187

[3] Kane v. Bloodgood, 7 Johns. Ch. 90; Clinton, etc., R. R. Co. v. Eason, 14 La. Ann. 816; Brigham v. Mead, 10 Allen, 245.

[4] United States v. Columbian Ins. Co., 2 Cranch's C. C. 266; *Ex parte* Holmes, 5 Cow 426.

[5] Mousseaux v. Urquhardt, 19 La. Ann. 482.

[6] Matter of Mohawk & Hudson R. R. Co., 19 Wend. 135.

[7] Hoppin v. Buffum, 9 R. I. 513.

[8] Strong v. Smith, 15 Hun, 222.

provision to that end, there can be no question but that the court may go behind the transfer book so far as is necessary to ascertain whether the votes cast were cast by a person legally authorized to do so. While, as a rule, the pledgor of stock is entitled to vote thereon, yet, if the pledgee for a long time acquiesces in the pledgee's control thereof, and by the books of the corporation the pledgee appears to be the owner thereof, in the absence of any fraud, a court of equity will not interfere to aid the pledgor in asserting control thereof at a contested election.[1] But where stock is transferred without consideration for the purpose of fraudulently controlling an election a court of equity will enjoin the transferees from voting thereon.[2] Where an election of officers is procured by the abuse of legal processes and proceedings under a preconceived scheme to that end, to prevent a fair election, it will be set aside.[3]

SEC. 59 *a*. **Rights of corporation in stock, lien, etc. — Liability for unauthorized transfers, etc.** — A corporation, in the absence of any provision in its charter, or the statutes giving it a lien thereon, or giving the board of directors discretionary power in that respect, cannot refuse to transfer stock upon its books;[4] and even

[1] Hoppin v. Buffum, 9 R. I. 513.

[2] Webb v. Ridgely, 38 Md. 364.

[3] People v. Albany, etc., R. R. Co., 55 Barb. (N. Y.) 344.

[4] Jasigi v. Chicago, etc., R. R. Co., 129 Mass. 46; Purchase v. N. Y. Exchange Bank, 3 Robt. (N. Y.) 164. When the required evidence of assignment is produced, the corporation is bound to permit a transfer of stock. Commercial Bank v. Kortright, 22 Wend. 348. But the remedy is by action, and not by *mandamus*. *Ex parte* Fireman's Ins. Co., 6 Hill (N. Y.) 243; Sargent v. Franklin Ins. Co., 8 Pick. 79; Rex v. London Assurance Co., 5 B. & Ald. 899. Especially where spurious stock is afloat. People v. Vein Coal Co., 10 How. Pr. (N. Y.) 186. *Assumpsit* lies for such refusal. Hill v. Pine River Bank, 45 N. H. 300; Helm v. Swiggett, 12 Ind. 194; Noyes v. Spaulding, 27 N. H. 20; Hardenbergh v. Bacon, 33 Cal. 356. In Cushman v. Thayer Mfg. Co., 76 N. Y. 365, the original certificate of the stock was issued to Peter B. Cushman, the plaintiff's husband, and by its terms was transferable only upon the books of the company upon surrender of the old certificate. Cushman executed an assignment of the stock in proper form to the plaintiff, which was witnessed by one Beals, an officer of the defendant corporation. Subsequently Cushman executed an assignment of the same stock to Beals. On the same day that the assignment was executed to the plaintiff, she presented it to the defendant, offered to surrender it, and demanded a transfer of the stock to her upon the company's books, and that a certificate be issued to her, which the defendants refused, and an action was brought to compel such transfer.

MILLER, J., said: "That an equitable action will lie, in such a case, has been distinctly recognized in a number of the adjudicated cases in this state. In Middlebrook v. Merchants' Bank, 41 Barb. (N. Y.) 481; 27 How. (N. Y.) 474, the action was brought to compel the bank to allow the transfer of certain shares of bank stock to the

where the statute provides that a transfer shall be subject to the approval and acceptance of the board of directors, it is held that this discretion cannot be exercised without limitation, so as to

plaintiff. A decree was made directing the transfer, and, upon appeal to the court of appeals, the judgment of the supreme court was affirmed. 3 Abb. App. Dec. 295. No question was raised in either of the courts as to the right to maintain the action; and it is said, in the opinion of the court of appeals: 'His' (the plaintiff's) 'right was perfect and his demand wrongfully refused.' As no point was made that the action did not lie, it is fair to assume that it was conceded that it could be maintained. In Com. Bk. of Buffalo v. Kortright, 22 Wend. (N. Y.) 348, it was held that an action of *assumpsit* lies against a corporation for damages for refusing to permit a transfer of stock on its books. The chancellor, who dissented from a majority of the court, in his opinion, says that the plaintiff might still file a bill to have a sale of the pledge and to compel the bank to allow a transfer of the stock to the purchaser. The decision of the case did not turn on the question now considered; and hence the point was not decided, and the remarks of the chancellor are only entitled to weight as the opinion of a judge learned and distinguished in this department of the law. In Pollock v. National Bank, 7 N. Y. 274, it was held that a bank which has permitted a transfer of stock owned by a stockholder, upon a forged power of attorney, and has cancelled the original certificates, may be compelled to issue new certificates; and if it has no shares which it can so issue, to pay the value thereof. If, in such a case, new certificates may be decreed to be issued, surely it should be done where the right of the owner is entirely clear. The action was of an equitable character, and the principle decided recognizes the right to compel a transfer of stock by the bank. In Purchase v. N. Y. Ex. Bk., 3 Robt. (N. Y.) 164, it was held that after an assignment of bank stock, the bank, upon the application of the *owner*, is bound to allow the transfer to be made on its books, and to issue a new certificate, unless restrained by the order of a court of competent jurisdiction. In White v. Schuyler, 1 Abb. Pr. (N. Y.) N. S. 300, it was held that specific performance of an agreement to transfer stock may be decreed, where the contract to convey is clear, and the uncertain value of the stock renders it difficult to do justice by an award of damages. The specific objection that the party had a remedy at law was not taken, although the point was in the case. The question was considered in the opinion by Hogeboom, J., and numerous authorities are cited to sustain the principle laid down. The same rule is held in the case of Buckmaster v. Consumers' Ice Co., 5 Daly (N. Y. C. P.), 313. These cases show a recognition of the principle that a court of equity will interfere when the remedy is defective at law, if such an interference be not against equity and good conscience. See Seymour v. Delancey, 6 Johns. Ch. (N. Y.) 222.

"While the general rule is for courts of equity not to entertain jurisdiction for a specific performance on the sale of stock, this rule is limited to cases where a compensation in damages would furnish a complete and satisfactory remedy. Phillips v. Berger, 2 Barb. (N. Y.) 608; Story's Eq. Jur., § 717. Judge Story, in section 717, states as the reason why a contract for stock is not specifically decreed, that 'it is ordinarily capable of such an exact compensation.' He further says: 'But cases of a peculiar stock may easily be supposed, where courts of equity might still feel themselves bound to decree a specific performance, upon the ground that from its nature it has a peculiar value, and is incapable of compensation by damages.' He also says, in regard to the general rule as to jurisdiction, in section 718: 'The rule is a qualified one and subject to exceptions; or rather, the rule is limited to cases where a compensation in damages furnishes a complete and satisfactory remedy.' The case considered comes directly within the exception stated. A recovery of damages would furnish in-

defeat the rights of others,[1] but can be exercised and enforced only so far as is necessary to protect the rights of the corporation, and that, if the corporation has no rights to be pro-

adequate compensation; the remedy by *mandamus* cannot be invoked as the authorities hold, and there can be no question that in a case of this kind a court of equity alone can grant the proper relief.

"It is insisted that when the plaintiff demanded a transfer on the books of the company, the stock had already been transferred to another person, who had paid a money consideration to the plaintiff's husband, from whom she claimed, and the remedy, if any, was by an action for damages. We think that the transfer alleged, under the circumstances, was not a valid one as against the plaintiff, and furnishes no sufficient answer to the plaintiff's claim, if, as we have seen, she had a right to maintain an action in equity to compel a transfer of the stock to her. Her right was paramount to that which the defendant seeks to interpose as a defense. The stock had previously, and on the 19th of January, 1875, been transferred to her by an assignment indorsed on the back of the certificate, and on the same day a power of attorney had been executed by the owner to her, which authorized the plaintiff to act for him and in his behalf. That the transfer was made without a moneyed consideration can make no difference, as it was otherwise valid. The assignments to Beals, which, it is claimed, are entitled to priority, bore date some time after the transfer to the plaintiff. As they were subsequent to such transfer, and as by the certificate the stock was only transferable upon the books of the company upon a surrender of the same, no title could pass, unless the transfer was thus made. The delivery of the certificate, as between the owner and assignee, with the assignment and power indorsed, passes the entire legal and equitable title in the stock, subject only to such liens or claims as the corporation may have upon it. McNeil v. Tenth Nat. Bk., 46 N. Y. 331; 7 Am. Rep. 341; N. Y. & N. H. R. R. Co. v. Schuyler, 34 N. Y. 30, 80. Any act suffered by the corporation that invested a third party with the ownership of the shares, without due production and surrender of the certificate, rendered it liable to the owner; and it was its duty to resist any transfer on the books without such production and surrender. Smith v. American Coal Co. of Allegany Co., 7 Lans. (N. Y.) 317. See, also, N. Y. & N. H. R. R. Co. v. Schuyler, 34 N. Y. 83. Beals was a witness to the original assignment to the plaintiff, was an officer of the company, and took the transfer to himself with full knowledge of plaintiff's claim for a very trifling consideration, and in fraud of plaintiff's rights as the owner of the stock. In view of the facts, Beals has no reason for questioning the plaintiff's title; and the defendant certainly has no valid grounds for claiming that Beals was the owner instead of the plaintiff.

"That no demand of the stock was made by Thayer, who was named in the assignment and authorized to make the transfer on the books of the company, was not important. If he was unwilling or neglected to do so, it would not deprive the plaintiff of her right, as the owner of the stock, to a transfer of the same. But the demand and refusal was admitted by the answer; and when the plaintiff rested, it was stated that the demand and refusal was admitted by the pleadings, and no claim made to the contrary, or exception taken to such statement.

"There was no error in the fourth finding of fact, which was to the effect that Cushman transferred the certificate of stock for a good consideration; and there was sufficient evidence to sustain such finding. That money was not paid, and that it was a gift to the plaintiff, does not impair or affect the validity of the assignment of the same. For similar reasons, the fourth

[1] Farmers' and Mechanics' Bank v. Wasson, 48 Iowa, 336; 30 Am. Rep. 398.

tected by its exercise, and other parties would be deprived of their rights thereby, it cannot be enforced. "Its enforcement," says Beck, J.,[1] "would operate as an infringement upon the property rights of others, which the law will not permit. It would, besides, operate as a restraint upon the disposition of property in the stock of the corporation, in the nature of restraint of trade, which the courts will not tolerate."[2]

If the corporation, by virtue of its charter or of the general law, has a lien upon the stock for assessments, calls or the indebtedness of the stockholder to it, it may refuse to transfer the stock until such lien is discharged,[3] and it is held in Pennsylvania that such a lien may be acquired by usage,[4] but the rule is generally held to be that such a lien cannot be acquired as against a purchaser without notice unless it is given by the charter or general law, of which the purchaser is bound to take notice, or by a by-law of the corporation to that effect of which he has notice.[5] At the common law no lien exists in favor

and fifth requests to find were properly refused. The subsequent power of attorney and transfer to Beals, without the certificate, could not affect or impair the validity of the previous assignment to the plaintiff; and as we have already seen, Beals acquired no right under the same. As the case is presented, there are no facts to authorize the conclusion that the transfer to the plaintiff was revoked by the assignment and power of attorney subsequently executed to Beals; and he acquired no title thereby. The acts of Cushman, in attempting to transfer stock to which he had no title, and of Beals, in accepting the same with full knowledge of that fact, could not affect the plaintiff's ownership in any form; and any transfer on the books of the company would be utterly unavailable in conferring any title upon Beals. The assignment was absolute to the plaintiff; and Cushman had reserved no right to make any other or different disposition of the stock, and was without any authority to do so. Beals was fully acquainted with the facts; and in accepting a transfer, and claiming under the same, he acquired no title whatever."

[1] Farmers', etc., Bank v. Wasson, *ante*.

[2] Sargent v. Franklin Ins. Co., 8 Pick. 90; Quinet v. Marblehead Ins. Co., 10 Mass. 476; United States v. Vaughn, 3 Binn. (Penn.) 394; Chambersburg Ins. Co. v. Smith, 11 Penn. St. 120; Choteau Springs Co. v. Harris, 20 Mo. 382.

[3] Great North of England Ry. Co. v. Biddulph, 7 M. & W. 243; Quinet v. Marblehead Social Ins. Co., 10 Mass. 476; Regina v. Wing, 33 Eng. L. & Eq. 80; N. A. Colonial Assn. of Ireland v. Bentley, 15 Jur. 187; Regina v. Londonderry, etc., Ry. Co., 13 Q. B. 998; Newry, etc., Ry. Co. v. Edmonds, 2 Exch. 118; Ambergate, etc., Ry. Co. v. Mitchell, 4 id. 540.

[4] Morgan v. Bank of North America, 8 S. & R. 73.

[5] Dana v. Brown, 1 J.J. Marsh. 304; Mass. Iron Co. v. Hooper, 7 Cush. 183; Heart v. State Bank, 2 Dev. Eq. 111; Farmers', etc., Bank v. Wasson, 48 Iowa, 336. In Bank of Holly Springs v. Pinson, 58 Miss. 421; 38 Am. Rep. 330, a bank was empowered by its charter to make "all needful rules and by-laws for the * * * mode

of a corporation upon a stockholder's stock for his indebtedness to it,[1] and upon an assignment of such stock by him it is bound to permit its transfer notwithstanding such indebtedness,[2] unless there is written or printed on the certificate a notice that transfers will not be permitted while the stockholder is indebted to the corporation,[3] or the corporation has established a usage to that effect, of which the assignee is bound to take notice,[4] or there is a by-law to that effect made in pursuance of a power given by the charter, warranting such a condition.[5] It is incumbent on the assignee of stock to reasonably satisfy the corporation of the entire genuineness of the assignment, and the corporation may require the personal attendance of the assignor in cases where there is a real doubt as to the genuineness of the

and manner of transferring its stock," enacted a by-law that the stock should be assignable only on its books, and that no transfer should be made by any stockholder indebted to it, and that the certificates of stock should contain notice of this provision. A certificate of stock was issued to C., reciting that the shares were "transferable at the office in person, or by attorney." C. pledged the certificate to Pinson, as collateral security, by an assignment indorsed thereon, appointing him attorney to demand and obtain a transfer on the books. The bank refused to transfer the stock on the ground that C. owed it more than the amount of the stock and that it had a lien on the stock therefor. Pinson had no notice of this claim when the assignment was made. The court held that Pinson was entitled to the transfer. In Steamship Dock Co. v. Heron, 52 Penn. St. 280, a stockholder whose estate was insolvent died indebted to the corporation, and after his death the company passed a resolution prohibiting the transfer of stock by any one indebted to the company until such indebtedness was paid or secured. The stock was subsequently sold, the purchaser having no knowledge of the stockholder's indebtedness or of the resolution of the company. The court held that the corporation was bound to permit the transfer. But where a certificate of stock states upon its face that the stock is transferable, "subject, nevertheless, to his indebtedness and liability at the bank, *according to the charter and by-laws of said bank*," it has been held that these words may be held to sustain a lien although no lien was expressly provided for in the charter or by-laws, and that the corporation, having relied on the stock as security, were entitled to insist upon the lien against the holder of the stock and against his assignee, as the words were sufficient to put the assignee upon inquiry as to whether the assignor was or not indebted to the corporation. Vansands v. Middlesex Co. Bank, 26 Conn. 144.

[1] Steamship Dock Co. v. Heron, 52 Penn. St. 280; Mass. Iron Co. v. Hooper, 7 Cush. 183.

[2] Heart v. State Bank, 2 Dev. Eq. 111.

[3] Vansands v. Middlesex Co. Bank, 26 Conn. 144.

[4] Morgan v. Bank of N. America, 8 S. & R. 73.

[5] St. Louis Perpetual Ins. Co. v. Goodfellow, 9 Mo. 149; Cunningham v. Alabama Life, etc., Ins. Co., 4 Ala. (N. S.) 652; Child v. Hudson Bay Co., 2 P. Wms. 207; Tuttle v. Walton, 1 Ga. 43; McDowell v. Bank of Wilmington, 1 Harr. (Del.) 27; Union Bank v. Laird, 2 Wheat. 390; Stebbins v. Phœnix Fire Ins. Co., 3 Paige Ch. 350.

transaction, but after a transfer has once been made under a power of attorney the corporation is bound by and cannot rescind it, and if it permits a transfer to be made where it ought not to have done so, as where it was made under a power of attorney executed by a lunatic, it may be set aside and the corporation will be liable for the damages sustained.[1] The reason for this rule is that the corporation is a trustee for the property and title of each owner of the stock and consequently are bound to exercise proper diligence and care in its preservation. This rule applies with additional force when the stock is expressed to be held on trust for certain persons named,[2] and if a corporation permits a transfer of stock to be made upon its books without examining the will as to the specific bequests of the stock therein made, it is deemed guilty of negligence and liable to the *cestui que trust* on the conversion of the stock by the executor to his own use,[3] and such has also been held to be the rule where the stock of a ward has been transferred by the guardian and the certificates canceled by the corporation,[4] and when the transfer was made under a forged power of attorney,[5] and it has been held that a stockholder may recover the dividends on the stock, although at the time the dividends were payable he knew that the stock had been placed in the name of another person under a forged power of attorney, and omitted to inform the corporation and did not demand the dividends until the offender had escaped.[6] So where a corporation permitted the transfer of stock under an assignment which had been altered so as to embrace *all* of the assignor's stock when it really embraced only a part thereof, the corporation was held liable to the owner for the amount of stock wrongfully transferred.[7] But where the stockholder has himself been guilty of negligence in the mode of

[1] Chew v. Bank of Baltimore, 14 Md. 299; Bayard v. Farmers and Mechanics' Bank of Phila., 52 Penn. St. 232; Pollock v. Nat. Bank, 7 N. Y. 274; Davis v. Bank of England, 2 Bing. 393; Sewall v. Boston Water Power Co., 4 Allen, 277.

[2] Bayard v. Farmers', etc., Bank, *ante*.

[3] Lowry v. Commercial, etc., Bank (U. S. C. C. Md.), 6 Western L. J. 121.

[4] City of Baltimore v. Norman, 4 Md. 352.

[5] Pollock v. National Bank, 7 N. Y. 274.

[6] Davis v. Bank of England, 2 Bing. 393; Taylor v. Midland Ry. Co., 6 Jur. (N. S.) 595.

[7] Sewall v. Boston Water-power Co., 4 Allen (Mass.), 277.

filling up the assignment,[1] or has misled the corporation by his conduct after the transfer, the corporation cannot be held chargeable for any loss to the assignor.[2]

SEC. 60. **Executor of stockholder, rights of.** — Upon the death of a stockholder, in a corporation, intestate, and the appointment of an executor or administrator of his estate who accepts the trust, he becomes, by operation of law, vested with the legal title to the stock, and with all the rights appertaining to the ownership of the same, and especially the right of voting at elections of directors of the company, without any formal transfer of the stock on the books of the company being necessary for that purpose.[3] But it is evident that the corporation in such cases might properly require evidence of the decease of the owner, and of the due appointment of such executor or administrator, who should claim the right to vote by virtue of his appointment as the representative of the deceased.

SEC. 61. **Stockholder's right to vote by proxy or attorney.** — There is usually a provision in the articles of association, that the members may be represented in the corporate meetings by an agent or *proxy* duly constituted. In such cases the personal attendance of the member at a general meeting is unnecessary, but the votes which a principal would be entitled to cast if personally present may be cast by his duly constituted agent. But the right of proxies to vote, as well as the manner of voting in moneyed corporations, is usually provided for by the articles of association, or the by-laws duly adopted in accordance with such articles, they constituting the guide and authority in this matter. When the constating instruments provide for the right of voting by proxy, that settles all questions relating to the subject.[4] And it is gen-

[1] Swan v. North British, etc., Co., 7 H. & N. 603.

[2] Duncan v. Lintley, 2 Mac. & G. 30; Coles v. Bank of England, 10 Ad. & El. 437.

[3] Matter of North Shore Ferry Co., 63 Barb. 556. And a combination between a portion of the members of a corporation to secure an election of a board of directors and the management of the profit is not void as against public policy. Faulds v. Yates, 57 Ill. 416.

[4] The right to vote at corporate meetings on shares of the stock of the corporation held in trust for the benefit of the corporation is suspended while they are so held. American Railway Frog Co. v. Haven, 101 Mass. 398.

erally so provided, in case of corporations for pecuniary gain. But it was formerly a controverted question whether the corporation could by its by-laws provide for such a method of voting where the constating instruments were silent upon the question. Mr. Kent observes: "Though in case of elections in public and municipal corporations, and in all other elections of a public nature, every vote must be personally given; yet in the case of moneyed corporations, instituted for private purposes, it has been held that the right of voting by proxy might be delegated by the by-laws of the institution, when the charter was silent."[1] But in a New York case,[2] the chancellor doubted the validity of the right of voting by proxy, when the right is not given either expressly or impliedly in the act creating the institution; and subsequently, after a full consideration of the question by the supreme court of New Jersey, it was held to be a principle of the common law, that where an election depended upon the exercise of judgment, the right could not be deputed; and that it required legislative sanction before any corporation could make a valid by-law authorizing members to vote by proxy.[3]

But we shall consider this subject more fully under the head of corporate meetings.[4]

Sec. 62. **Matters stockholders are presumed to know.**— It is a general rule that a person who becomes a member of a corporation is presumed to know the obligations he assumes under the charter and the by-laws of the body. And if he or the corporation is mistaken in their construction of them, this would not be the ground for setting aside a contract between them.[5] And it has been held that parties assuming to act in a corporate capacity, and

[1] 2 Kent's Com. 394; State v. Tudor, 5 Day (Conn.), 329

[2] Phillips v. Wickham, 1 Paige, 593.

[3] Taylor v. Griswold, 14 N. J. L. 223.

[4] See chap. 8.

[5] Chesapeake, etc., Canal Co. v. Dulany, 4 Cranch's C. C. 85; Palmyra v. Morton, 25 Mo. 593; Wight v. Shelby R. R. Co., 16 B. Monr. 4.

A corporation may contract with a corporator, and sue or be sued on the contract. Culbertson v. Wabash Nav. Co., 4 McLean, 544. But a corporation is not generally bound by the admission of its members, unless acting by its express authority. Shay v. Tuolumne Co. Water Co., 6 Cal. 73.

Subscribers for stock in a railway company must be presumed to know the provisions of the charter of the company. Wight v. Shelby, etc., R. R. Co., 16 B. Monr. 4.

as members of a corporation which has in fact no corporate existence, are personally liable to those with whom they contract as partners, if it appears that *they were so acting at the time the contract was made.*[1]

SEC. 63. **Personal liability of stockholders under statutes.**— At the common law, a stockholder of a corporation is not liable for its debts or for the acts of its officers in the prosecution of the business of the company, but they are frequently made individually responsible for the debts and liabilities of the corporation, or to a limited amount or proportion of the same, by the express provisions of the incorporating statutes, or the constitution of the state. These provisions vary the general common-law rule, exempting the members from individual liability beyond their express obligations to the company. But the liability being purely statutory, they are not liable except in the mode and to the extent provided in the statute. In a Vermont case,[2] the charter of a corporation provided that the "persons and property of said corporation shall be holden to pay their debts, and when any execution shall issue against such corporation, the same may be levied on the person or property of any individual thereof," and it was held that this did not authorize the levying of an execution against the corporation upon the persons or property of the stockholders in the first instance, but that proceedings must first be had against the corporation and the remedies against it exhausted before the liability of the stockholders attached. When the statute simply imposes liability upon the stockholders to an amount equal to their stock, together with any unpaid subscription, this is the limit of their liability, and when it has been once exhausted by a suit by a creditor, the liability ceases,[3] and it seems that a *bona fide* judgment debt in favor of a stockholder against the corporation may be set off by him in equity against a suit to make him individually liable in proportion to his stock.[4] It was also held in the case last cited that a creditor need not sue all the stockholders, but may pursue one or more, provided, however,

[1] Fuller v. Bowe, 57 N. Y. 23.
[2] Danely v. Brown, 24 Vt. 197. See, also, Stewart v. Say, 45 Iowa, 604; Hanson v. Donkersley, 37 Mich. 184.
[3] State Savings Bank v. Kellogg, 63 Mo. 540.
[4] Boyd v. Hall, 56 Ga. 563.

that his recovery shall in no case exceed the amount of his stock. The statute of California concerning mining corporations provides that "each stockholder shall be individually and personally liable for his proportion of all the debts and liabilities of the company contracted or incurred during the time that he was a stockholder, for the recovery of which joint or several actions may be instituted and prosecuted." [1]

And the constitution of that state provides that "dues from corporations shall be secured by such individual liability of the corporators and other means as may be prescribed by law," [2] and that "each stockholder of a corporation or joint-stock association shall be individually and personally liable for his proportion of all its debts and liabilities." [3] In a suit against stockholders of a mining company in California to recover against them personally a debt due from the corporation, the question was presented whether the stockholders were personally liable beyond their proportion of all the debts and liabilities of the corporation, contracted or incurred during the time they were stockholders, and whether the statutory provision was not void as in conflict with the constitution.

Sawyer, C. J., in delivering the opinion of the supreme court in the case, observed: "It was manifestly contemplated that the legislature should regulate the liability and prescribe the rule by which each stockholder's proportion should be ascertained. The principle adopted by the legislature makes every stockholder liable for his share of all debts contracted while he is a stockholder. The entire body of stockholders for the time being is personally liable for the entire debt contracted; an entire set of stockholders is liable for every debt. This is sufficient to answer all the requirements of the constitution. There is nothing in the provision that requires each man when he becomes a stockholder to do so on the penalty of becoming responsible for all prior liabilities of the corporation that remain uncanceled. This would be to make several different sets of stockholders personally responsible for some debts and only one set for others. There is nothing in the constitution requiring such a result." [4] In an action against a

[1] Act passed April 17, 1853, amended 1863.
[2] Art. 4, § 32.
[3] Id., § 36.
[4] Larrabee v. Baldwin, 35 Cal. 155. See, also, French v. Teschemaker, 24 id. 539.

stockholder under the provision of the foregoing statute, to recover a proportional share of one of the corporate debts, the evidence must show that he was a stockholder at the time the debt was contracted; and where a judgment against the corporation does not show when the debt upon which it was rendered was contracted, it would not be sufficient to establish the liability of a stockholder thereon, nor would a judgment against the corporation, while a party is a stockholder, upon a contract entered into before that time, constitute a contract within the meaning of the act which provides that a stockholder shall be liable for corporate debts contracted or liabilities incurred while he was a holder of stock, so as to render him personally liable for any portion thereof; but, in case of liability, a joint and several action may be maintained against the stockholders for a corporate debt.[1]

SEC. 64. **Cause of action accrues, when.**— Under such statutes it becomes a very important question when a cause of action against a corporation against its stockholders upon their individual liability, for debts and liabilities of the corporation contracted or incurred during the time they were stockholders. That is, whether it accrues at the same time it accrues against the corporation, or not until after a judgment has been obtained against the corporation, and the creditor has failed to collect it from the corporation, or, in other words, whether the liability of the stockholder is conditional, upon the failure or inability of the corporation to pay.

These questions have been settled by the supreme court of California, in a case involving the construction of the constitutional and statutory provisions referred to, in which COPE, J., who delivered the opinion of the court, said: "It would seem, from a just and reasonable construction of the constitutional and statutory provisions upon this subject, that an individual corporator in respect to his personal liability for the debts of the corporation does not occupy the position of a surety, but that of principal debtor.[2] His responsibility commences with that of the

[1] Id.; Davidson v. Rankin, 34 Cal. 503 (1868); S. C., 1 With. Corp. Cases, 199.

[2] Without questioning the accuracy of the doctrine stated by the court, under the peculiar provisions of the California statute, yet we should be derelict in our duty if we did not warn the profession that this doctrine is only applicable under statutes con-

corporation and continues during the existence of the indebtedness. It is not in any sense contingent, but is declared to be absolute and unconditional. The remedial effect of these provisions, in which consists their only value, should not be impaired

taining identical provisions. It will be observed that under this statute the creditor may proceed against the corporation and the stockholders in the same action, or may pursue them separately, so that the doctrine which is usually held in reference to a stockholder's liability, that the corporation is primarily liable, and the remedies against it must be first exhausted, has no application, as it would have except for this provision. But the statement of the learned judge that their corporate debts and liabilities stand in the same position in relation to corporation creditors as if they were conducting their business as an ordinary partnership can have no application under the California statute, because under it each stockholder is not made individually liable for the entire debts of the corporation, as an individual partner would be, but only for "his proportion of all the debts of the corporation during the time he was a stockholder." That is, under a fair construction of the statute his liability is to be in the ratio which the amount of the stock owned by him bears to the whole stock of the corporation, and this liability has no resemblance to the liability of an ordinary partner. The court evidently had in mind, when it made use of the expression referred to, the doctrine held by HOSMER, C. J., and two other judges, in Southmayd v. Russ, 3 Conn. 53. But that doctrine was held under a very peculiar clause in the charter, to-wit: "That the persons and property of the members of said corporation shall at all times be liable for all debts due by said corporation." Under this statute the liability of a stockholder is not limited, but is co-extensive with the obligations and liabilities of the corporation itself, nor is the liability restricted to the share of each stockholder, so that the court might well say that "they are liable as if there had been no incorporation. The debt is no sooner incurred than their liability commences * * * while the members of the company enjoy all the privileges of a corporation, their creditors the rights, and are entitled to the remedies which are furnished by established law, against an ordinary partnership." But even under this peculiar provision, which will probably not be met with in the charter of any other incorporated company in existence, PETRUS, J., and BRISTOL, J., refused to give their assent to the statement of HOSMER, J., that the defendants were to be treated as a mercantile copartnership, nor generally, under these charters and statutes, will it be found that there is any attempt even to render the stockholders primarily liable with the corporation for its debts, and unless the statute, as does the statute of California, expressly so provide, the courts will hold that the liability is merely secondary, and only attaches when the creditor's remedy against the corporation has been exhausted and proved wholly or partially fruitless. This liability, being purely statutory, and in derogation of the common law, the statutes conferring or imposing it will be strictly construed, and liberally in favor of the stockholder, and, in determinining the question, the language of the charter or statute will never be extended beyond the plain and ordinary import of the language employed. The doctrine of strict construction is illustrated in a Pennsylvania case in which this question was ably discussed by the court. Mayer v. Pennsylvania Slate Co., 71 Penn. St. 293. In that case the charter contained a provision that the stockholders should be individually liable "for debts due mechanics, workmen and laborers employed by the company, and for material furnished," and the court held that the language could not be extended so as to make them liable for hauling, for repairing wagons, for lumber, for erecting machinery, provender for horses, powder for blasting, tools, etc., as the word "materials" must be restricted to that which forms a part of the products of the company.

by construction. Similar provisions in other states have generally been construed in the same manner. It has been declared that the members of a corporation who are answerable, personally, for the corporate debts and liabilities, stand in the same position in relation to creditors of the corporation as if they were conducting their business as a common partnership."[1] Of course, no general rules can be given by which to determine either the fact, or the extent of a stockholder's liability under these statutes, as in every case it depends upon the language of the statute. But, under a statute making the stockholder liable for the debts of the company, his liability is restricted to demands arising *ex contractu*, and he cannot be made liable for torts.[2] And, even though a judgment is obtained against the corporation for a tort, yet, if it is sought to render a stockholder liable therefor, the question of liability depends, not upon the judgment, but upon the original ground of action. Under these statutes, a *subscriber* for stock is held liable, although he has never paid his subscription or done any act as a stockholder,[3] because the court will not look beyond the legal title to the stock as shown by the books of the corporation.[4] In New York it is held, under the statute existing there, that the liability of a stockholder is several and not joint, and that each creditor has a remedy against each stockholder,[5] and that they are not primarily liable, as partners, but only as corporators.[6]

SEC. 65. **Intentional deceit as to organization, etc.**— Under the statutes of various states it is also provided that any failure to comply with the requirements of the statute or the articles of association in organizing the corporation, or in intentionally deceiving the public as to their means or liabilities, subjects the stockholders, or those in fault in these respects, to a personal liability; and they are made liable for the corporate debts in the former

[1] Mokelumne Hill Canal Co. v. Woodbury, 14 Cal. 265; Davidson v. Rankin, *supra*. See, also, Moss v. McCullough, 7 Barb. 295; Harger v. McCullough, 2 Den. 119; Marcy v. Clark, 17 Mass. 330; Southmayd v. Russ, 3 Conn. 56; Moss v. Oakley, 2 Hill, 265; Allens v. Sewall, 2 Wend. 327; Corning v. McCullough, 1 Comst. 47; Simonson v. Spencer, 15 Wend. 548; Todhunter v. Walters, 29 Ind. 105 (1868).

[2] Heacock v. Sherman, 14 Wend. 58.

[3] Spear v. Crawford, id. 20.

[4] Alderley v. Storm, 6 Hill, 624.

[5] Abbott v. Aspinwall, 26 Barb. 202.

[6] Conant v. Van Schaick, 24 id. 87.

case, and in the latter to such damages as may be sustained thereby.[1] But it is generally provided in such cases that satisfaction must first be sought of the corporation.[2] The liability of corporators for failure to comply with the law in the institution of the corporation does not generally apply to railroad corporations; the usual limit of liability of members in such corporations, and in some other cases, being the amount of stock held by them.[3]

[1] Code Iowa, §§ 1068–1071; Corporation Acts of California, 1853–1863; Rev. Stat. Me., chap. 76.

[2] Id., § 1083. See, also, as to the construction of a former but similar statute of that state, Donworth v. Coolbaugh, 5 Iowa, 300; McKellar v. Stout, 14 id. 359.

[3] Iowa Code (1873), 1068; Md. Act, 1852, chap. 338. The decisions, under the personal liability provisions of the statutes of the various states, are as follows:—

California. Mokelumne, etc., Co. v. Woodbury, 14 Cal. 265; Irvine v. McKeon, 23 id. 472. But such a clause in the constitution may be waived, by a stipulation to that effect in corporate contracts. French v. Teschemaker, 24 id. 518. See, also, as to the effect of a writing signed by the president of a corporation, as evidence, Curtiss v. Murry, 26 id. 633. See, also, as to individual responsibility under a particular provision of the California statute, Davidson v. Rankin, 34 id. 503.

Connecticut. Southmayd v. Russ, 3 Conn. 52; Middleton Bank v. Russ, id. 135; Beardsley v. Smith, 16 id. 368.

Georgia. A stockholder subjected to liability may have his remedy. Force v. Dahlonega Tanning, etc., Co., 22 Ga. 86; Conner v. Southern Ex. Co., 37 id. 397.

Illinois. Where a stockholder is liable to the amount of his stock, there should be an averment of the amount in the declaration. Sherman v. Smith, 20 Ill. 350. So suit should be brought within one year. Tarbell v. Page, 24 id. 46. See, also, Baker v. Backus, 32 id. 79.

Iowa. Execution should follow the judgment, with a clause that it be levied on the property of the members. Hampson v. Weare, 4 Iowa, 13. See, also, Donworth v. Coolbaugh, 5 id. 300; Corse v. Sanford, 14 id. 235. The bank officer, liable individually under the statute, for payment of bills issued, may contract with another party for the redemption of them. Allen v. Pegram, 16 id. 163.

Kentucky. Greenup v. Barbee, 1 Bibb, 320. Corporators, only, liable for a note who were such at the time it was given. Castleman v. Holmes, 4 J. J. Marsh. 1. See, also, Roman v. Fry, 5 id. 634; De Wolf v. Mallett, 3 Dana, 218; U. S. Bank v. Dallam, 4 id. 574; Cornwall v. Easthman, 2 Bush, 561.

Louisiana. Brown v. Union Ins. Co., 3 La. Ann. 177; Robertson v. Conrey, 5 id. 297; Stark v. Burke, id. 740. One whose stock has been forfeited will not be further personally liable. Macauly v. Robinson, 18 id. 619.

Maine. The creditor must, under act of February 16, 1836, first obtain judgment against the corporation. Drinkwater v. Portland Marine R., 18 Me. 35.

A statute, making stockholders in a pre-existing corporation liable individually for the debts of the corporation, is constitutional in respect to debts contracted after the passage of the statute. Stanley v. Stanley, 26 Me. 191. See, also, Longley v. Little, id. 162; Fowler v. Robinson, 31 id. 189; Fowler v. Ludwig, 34 id. 455; Grose v. Hilt, 36 id. 22; Hudson v. Carman, 41 id. 84; Cummings v. Maxwell, 45 id. 190.

Under the act of 1856, a stockholder cannot be personally liable in an action commenced after the passage of the act, to recover a debt contracted before its enactment. Coffin v. Rich, 45 id. 507; Carroll v. Hinkley, 46 id. 81; Cathorn v. Towle, id. 302; Holt v. Blake, 47 id. 62.

Judgment against the corporation is binding upon the stockholders, and, until reversed, is conclusive upon them in a subsequent suit against

SEC. 66. General liabilities on subscriptions for stock.— The charter or act of incorporation, or the general statutes and articles of association, under which a corporation is instituted, like the

them by the same plaintiff. Milliken v. Whitehouse, 49 Me. 527.

Maryland. Section 9, of chapter 338, of the act of 1852, provides that stockholders "shall be severally and individually liable to the creditors of the company in which they are stockholders to an amount equal to the amount of stock held by them respectively, for all contracts made by such company until the whole amount of capital stock fixed and limited by such company shall have been paid in, one-half thereof in one year, and the other half in two years, from and after the incorporation of said company, or such corporation shall be dissolved."

On a bill filed by creditors, to make certain stockholders liable under this provision, the latter attempted to set off the amount of certain loans made by them to the company. But the supreme court of Maryland held: 1. That though the doctrine of recoupment might arise, it did not follow that the stockholders were absolved from liability to the creditors of the company; 2. That the statute did not refer to them in their corporate capacity, but as individual stockholders; and it declared their liability without reference to the amount they might have paid for the stock; 3. That the stockholders were not liable for debts contracted by the company subsequent to the parting with their stock; 4. That each might insist upon contribution from the others, of their proportion of the complainant's claims. Matthews v. Albert, 24 Md. 527.

Massachusetts. Liability several and not joint. Pratt v. Bacon, 10 Pick. 127. Law should be construed strictly. Gray v. Coffin, 9 Cush. 192. See, also, Holyoke Bank v. Burnham, 11 id. 183; Handrahan v. Cheshire, etc., 4 Allen, 396; Mason v. Same, id. 398; Hutchins v. New England, etc., Co., id. 580. Under the statutes of 1851, chap. 133, see Bonk v. Clark, 6 id. 361; Tyrrell v. Washburn, id 466. Under act 1862, chap. 218, § 3, see Peele v. Phillips, 8 id. 86

New York. Slee v. Bloom, 19 Johns. 456; Briggs v. Penniman, 8 Cow. 387; Allens v. Sewall, 2 Wend. 327. Stockholder liable though he has paid no part of his subscription. Spear v. Crawford, 14 id. 20; Moss v. Oakley, 2 Hill, 265.

Debts barred by the statute of limitations cannot be enforced. Van Hook v. Whitlock, 3 Paige, 409; Same v. Same, 7 id. 373; Corning v. McCullough, 1 N. Y. 47; Bogardus v. Rosendale Manuf. Co., 7 id. 147; Moss v Averell, 10 id. 449; Burr v. Wilcox, 22 id. 551; Bailey v. Hollister, 26 id. 112. The liability of a trustee under the act of 1848 is confined to debts contracted while he was trustee. Shaler, etc., Co. v. Bliss, 27 id. 297.

Stockholder liable while he appears upon the books as such, though he has transferred his stock. Worrall v. Judson, 5 Barb. 210. See, also, Hoagland v. Bell, 36 id. 57; Williamson v. Wadsworth, 49 id. 294; Ogden v. Rollo, 13 Abb. Pr. 300; Wait v. Ferguson, 14 id. 379; Maher v. Carman, 38 N. Y. 24; Witherhead v. Allen, 28 Barb. 661; Perkins v. Church, 31 id. 84.

The plaintiff must show that the defendant was a stockholder at the time the debt was contracted. Young v. N. Y., etc., Steamship Co., 15 Abb. Pr 69.

North Carolina. Under the provisions of an act of incorporation, providing "that the private property of the individual stockholders shall be liable for the debts of contracts and liabilities of the corporation," it was held that the responsibility of the individual stockholders was secondary, and that when the corporation became extinct the liability of the stockholders became extinct also. Malloy v. Mallett, 6 Jones' Eq. 345.

Ohio. Kearney v. Buttles, 1 Ohio St. 362; Medill v. Collier, 16 id. 599.

Pennsylvania. Carr v. Le Fevre, 27 Penn. St. 413. A decision in relation to liabilities of stockholders, under the act of 1853. See, also, Patterson v. Wyomissing, etc., Co., 40 id. 117. See, also, Wilson v. Pittsburgh, etc., Co., 43 id. 424; Mansfield, etc., v. Willcox, 52 id. 377.

South Carolina. Where the charter

constitution of a state, not only the organic but the supreme law of its being. By these constating instruments, the amount of the capital stock is fixed, as well as the times and conditions for the payment for subscriptions for the stock, the proportion of indebtedness to the capital stock, and, if organized under general statutory provisions, the preliminary steps necessary to incorporate the association. Provision is also usually made by the articles of association or by-laws, for a division of the capital stock into equal shares, for the issuing of proper certificates therefor to purchasers or subscribers, who thereby become members of the corporation,[1] and for a record of such sales, and of all transfers of the certificates on proper books of the company.

Controversies frequently arise between subscribers and the company as to the liability as well as the rights of the former on their subscriptions. The subscribers for stock are bound to take notice of the requirements of the charter, articles and by-laws of the company, and of the obligations thereby imposed upon them. These usually control the contract and explain the obligation. The subscription becomes a contract between the subscriber and the corporation to pay the sum stipulated, in such manner and on such conditions as may be provided in the express contract, interpreted by the constating instruments, to which he subscribes, or in the absence of this, at such times and on such conditions as may be provided by the articles or by-laws.[2]

provided that nothing therein contained should exempt the members "from all liabilities pertaining to general partners," it was held that the members were liable to creditors of the company as partners, and might be sued as such under the corporate name. Planters' Bank v. Bivingsville Cotton Man. Co., 10 Rich. 95. See, also, Haslett v. Wotherspoon, 1 Strobh. Eq. 209; Farrow v. Bivings, 13 Rich. Eq. 25.

Tennessee. Ohio Life Ins. and T. Co. v. Merchants' Ins. and T. Co., 11 Humph. 1.

[1] The subscriber to capital stock of an incorporated company becomes a member of it, even though he may subsequently fail to meet calls on his subscription. Schaeffer v. Missouri Ins. Co., 46 Mo. 248. But this will depend upon the terms of the statute under which the company is formed. Under the Massachusetts statute the subscribers can hardly be said to be members of the company, unless they finally elect to take and pay for the shares subscribed for.

[2] Highland Turnpike Co. v. McKean, 11 Johns. 100; Goshen Turnpike Co. v. Hurtin, 9 id. 218; Hibernia Turnpike Co. v. Henderson, 8 S. & R. 219; Trumbull v. Mutual Fire Ins. Co., 17 Ohio, 407: Gayle v. Cahawba, etc., Ry. Co., 8 Ala. 586; Stokes v. Lebanon Turnpike Co., 6 Humph. 241; Hartford, etc., R. Co. v. Kennedy, 12 Conn. 499; Essex Bridge v. Tuttle, 2 Vt. 393; Union Lock, etc., v. Towne, 1 N. H. 44; Wadsw. on Joint-Stock Comp. 317; Hall v. U. S. Ins. Co., 5 Gill. 484.

SEC. 67. **Conditions provided by the constating instruments.**— Where the charter of a railroad company provided that no subscription should be received and allowed without the payment of five dollars on each of the shares at the time of the subscription, it was held that a subscription without such payment did not invest the subscriber with any of the privileges of a corporator, nor render him liable either as a subscriber, stockholder or otherwise.[1] And where, by the incorporating act, the shares of stock were fixed at twenty-five dollars, and it required the payment of ten dollars on each share subscribed at the time of subscribing, it was held in New York that the subscription and payment were both essential to constitute membership, and to consummate the contract. The court, in an early New York case,[2] in which the question was determined, say: "Suppose the speculation had been an advantageous one, and before the first call of the president and directors, the stock had risen considerably in value, could not the directors, with propriety, have refused to consider Mr. Jenkins (the defendant) as a stockholder, on account of his not having made the payment required by the act on his subscribing? I think they could.

[1] Wood v. Coosa, etc., R. Co., 32 Ga. 273. See, also, Highland T. Co. v. McKean, 11 Johns. 98.

[2] 1 Cai. (N. Y.) 381. The rule adopted in this case was followed in Highland Turnpike Co. v. McKean, 11 Johns. 98; Charlotte, etc., R. R. Co. v. Blakeley, 3 Strobh. 245, and Hibernia Turnpike Co. v. Henderson, 8 S. & R. 219. But, unless the charter or the law under which the corporation is formed makes such payment a condition precedent, it is not believed that the subscriber can set up his failure to pay as a defense to an action against him therefor upon his subscription. The only effect of such a failure ordinarily would be, to enable the company to decline to recognize the subscription, unless such payment is made as required. Vicksburgh, etc., R. R. Co. v. McKean, 12 La. Ann. 638; Wight v. Shelby R. R. Co., 16 B. Monr. 4. And in New York, under the general railroad law of 1850, prescribing that no subscription to the stock shall be taken without a payment of ten per cent on the amount in money, it is not necessary that the payment should be made at the same time with the subscription, if the statute is complied with before suit brought. If both the subscription and the actual cash payment of ten per cent have been made, the contract is binding, although the acts are not simultaneous. Ogdensburgh, etc., R. R. Co. v. Wolley, 34 How. Pr. 54. See, also, Napier v. Poe, 12 Ga. 170. A subsequent payment will operate as a waiver of the condition, and the party making it will be treated as recognizing his original liability. Beach v. Smith, 28 Barb. 254; Hall v. Selma, etc., R. R. Co., 6 Ala. 741; Black River, etc., R. R. Co. v. Clarke, 25 N. Y. 208; Haywood, etc., Plankroad Co. v. Bryan, 6 Jones' L. 82. And where an article in the by-laws of a corporation provided that "ten per cent shall be payable upon subscription, or the subscription shall be void," it was held that a subscription made without paying any thing was not void, but voidable only *at the election of the company.* Piscataqua Ferry Co. v. Jones, 39 N. H. 491. See, also, holding a similar doctrine, Smith v. Plankroad Co., 30 Ala. 650; McRea v. Russell, 10 Ired. 224.

No possible benefit then arising from the future emoluments of the company transactions can be considered as a consideration for the promise; and if it could, none such is stated on the record." [1] But there seems to be no question but that the right of membership, of itself, affords a sufficient consideration for a subscription to the stock of a corporation,[2] and an agreement to take a certain number of shares of stock subscribed for previously to the formation or incorporation of the company is at least sufficient to support an implied promise to pay all calls upon the same after the corporation is formed.[3] Of course a subscription to stock before the corporation is formed is a mere proposition or agreement to take the number of shares named in the subscription when the corporation is legally formed, and is revocable at any time *before* the latter event occurs, but not afterward,[4] and, after the corporation is legally formed, a subscriber is liable upon his subscription, although he has not complied in all respects with its conditions. Thus, where a note was given in lieu of the amount required by the incorporating act to be paid at the time of a subscription, it was held that the note was given upon sufficient consideration and was valid in the hands of the corporation, though executed before the completion of the organization.[5] And it has been held by the supreme court in Kentucky that the failure of a subscriber for railway stock, to pay the amount required by the charter to be paid at the time of the subscription, does not exonerate him from his liability for his subscription, as it would be his duty to pay it, and he should not be permitted to take ad-

[1] See, also, same doctrine in Hibernia Turnp. Co. v. Henderson, 8 S. & R. 219. But, in a dissenting opinion in this case, Duncan, J., said: "If this defendant had obtained a receipt from the commissioners and had given his note to the company for the money to be paid in advance, it could be recovered. Has he not done this? For the subscription includes this, and is a note for five dollars payable on demand; and the company could have recovered though no note had been given."

[2] Lake Ontario R. R. Co. v. Mason, 16 N. Y. 451; Buffalo & N. Y. R. R. Co. v. Dudley, 14 id. 336; Selma & Tenn. R R. Co. v. Tipton, 5 Ala. 787.

[3] Eastern Plankroad Co. v. Vaughn, 14 N. Y. 546; Rensselaer, etc., Plankroad Co. v. Barton, 16 id. 457; Penobscot R. R. Co. v. Dummer, 40 Me. 172; Gleaves v. Brick Church Turnpike Co., 1 Sneed, 491; Johnston v. Ewing Female University, 35 Ill. 518; Johnson v. Wabash, etc., R. R. Co., 16 Ind. 389.

[4] Poughkeepsie, etc., Plankroad Co. v. Griffin, 24 N. Y. 150; Burt v. Farrar, 24 Barb. 518.

[5] Vermont Central Ry. Co. v. Clayes, 21 Vt. 30. See, also, People's Ferry Co. v. Balch, 8 Gray, 314; Troy R. Co. v. Newton, id. 596. But see, also, Lexington R. Co. v. Chandler, 13 Metc. 311.

vantage of his own wrong.[1] So, in Louisiana, a stock subscriber, who had not paid the five per centum on the amount of his stock at the time of subscribing, as required by the charter of the company, it was held, could not avail himself of such a defense, for it was his duty to make the payment, and that to sustain such a defense would be to permit him to avail himself of an advantage from his own wrong.[2]

SEC. 68. **Special liabilities created by charter.**— The liabilities of the subscribers may depend upon other conditions imposed by the charter or act of incorporation. Thus, when by the act under which the corporation was created, it was provided that the capital stock should be divided into five thousand shares, of not exceeding $100 each, and that after one thousand shares should be subscribed for, a meeting of the subscribers might be called for the purpose of organizing the corporation, and providing for the management of its affairs; it was held, by the supreme court of Massachusetts, that no call for the payments of subscription could lawfully be made for the general objects of the corporation until the five thousand shares had been subscribed for, although a call might be made before that time to defray the expenses incurred in effecting the incorporation.[3]

SEC. 69. **Conditions must be complied with.**— It may be stated as the general, if not the universal rule in this country, that where

[1] Wight v. Shelby Ry. Co., 16 B. Monr. 4. See, also, under provisions of the Ohio statute, Chamberlain v. Painesville, etc., R. Co., 15 Ohio St. 225; Ashtabula, etc., R. Co. v. Smith, id. 328.

[2] Vicksburgh R. Co. v. McKean, 12 La. Ann. 638.

And where in lieu of a cash payment, required by the charter on the first installment, the subscriber gave his promissory note, this was held a sufficient compliance. McRae v. Russell, 12 Ired. 224; Selma & Tenn. R. Co. v. Tipton, 5 Ala. 787; Tracy v. Yates, 18 Barb. 152; Greenville & Col. R. Co. v. Woodsides, 5 Rich. 145; Mitchell v. Rome R. Co., 17 Ga. 574. See, also, Everhart v. West Chester Phil. R. Co., 28 Penn. St. 339.

[3] Salem Mill-dam Corp. v. Ropes, 6 Pick. 23.

But if, by the charter, a bank is restricted from operation until a certain amount of stock is subscribed, a subsequent purchaser of the stock could not be prejudiced by the fact that a certain amount of the stock was fraudulent and fictitious, and secured by collusion between the original subscribers and the commissioner, for the purpose of evading the limitations of the law, provided the purchase was *bona fide*, and without notice of the fraud. Minor v. Mechanics' Bank, 1 Pet. 46; Walker v. Devereaux, 4 Paige, 229; Johnston v. South West R. Bank., 3 Strobh. Eq. 263; Ang. & Am. on Corp., § 146.

the constating instruments fix the number of shares or the amount of the capital stock to be subscribed, or the sum which must be paid thereon, before the corporation can enter upon the business for which it was organized, these conditions must be, in good faith, complied with.[1] Thus, in a California case,[2] an agreement to take shares, etc., and that "as soon as $150,000 of the capital stock of the company has been secured" * * * "the company will be organized," was held not to be binding where the company was organized on a subscription of only $130,000. In an Oregon case,[3] articles were filed under the general incorporation law, to incorporate the Oregon Central Railroad Company with a capital stock of $7,250,000, divided into seventy-two thousand five hundred shares of $100 each. Six persons subscribed for one share each, and the seventh subscription was as follows: "Oregon Central Railroad Company, by G. L. Wood, chairman, seventy thousand shares, $7,000,000," and it was held that an organization effected under these subscriptions was a nullity. So, under an English act of incorporation which provided that the sum of £100,000 should be subscribed before any of the powers and provisions of the act should be considered in force, it was held that the full sum required should be subscribed before any call could be made on the subscription.[4]

This doctrine has been frequently recognized in this country.[5] The condition imposed in such cases is a condition precedent; and no authority to act is conferred, until it is fully complied with.

[1] As bearing on these propositions, consult opinion of Parker, J., in Schenectady, etc., R. Co. v. Thatcher, 11 N. Y. 102. See, also, Salem Milldam Co. v. Ropes, 6 Pick. 23; 9 id. 187; Central T. Co. v. Valentine, 10 id. 142; Stoneham Branch R. Co. v. Gould, 9 Gray, 277; Troy, etc., R. Co. v. Newton, 8 id. 596; Cabot, etc., Bridge Co. v. Chapin, 6 Cush. 50; Worcester, etc., R. Co. v. Hinds, 8 id. 110; Atlantic Cotton Mills v. Abbott, 9 Cush. 423; Lexington, etc., R. Co. v. Chandler, 13 Metc. 311; Harlem Canal Co. v. Seixas, 2 Hall, 504; Rensselaer, etc., R. Co. v. Wetsel, 21 Barb. 56; Haun v. Mulbury, etc., R. Co., 33 Ind. 103; Hain v. N. W. G. Co., 41 id. 196; Fox v. Allensville Co., 46 id. 31; Peoria, etc., R. Co. v. Preston, 35 Iowa, 115; Shurtz v. Schoolcraft, etc., R. Co., 9 Mich. 269; Oldtown, etc., R. Co. v. Veazie, 39 Me. 571; Penobscot R. Co. v. Dummer, 40 id. 172; Penobscot R. Co. v. White, 41 id. 512; Littleton Manuf. Co. v. Parker, 14 N. H. 543; Contocook Valley R. Co. v. Barker, 32 id. 363; New Hampshire, etc., R. Co. v. Johnson, 30 id. 390.

[2] Santa Cruz R. R. Co. v. Schwartz, 53 Cal. 106.

[3] Holladay v. Elliott, 8 Oregon, 84.

[4] Norwich, etc., Co. v. Theobald, 1 Moo. & Mal. 151.

[5] Salem Mill-dam Corp. v. Ropes, 9 Pick. 187; Central Turnpike Co. v. Valentine, 10 id. 142; Worcester, etc., R. Co. v. Hinds, 8 Cush. 110; Littleton Manuf. Co. v. Parker, 14 N. H. 543.

But where the charter of a railroad company provided for certain commissioners to receive subscriptions, and that they should "receive no subscriptions to said stock unless five per centum thereof in cash should be paid to them at the time of subscribing, and should they receive subscriptions to said stock without payment, they shall be personally liable to pay the same to said corporation when organized," it was held that this clause was not a condition precedent to the organization of the company, but a mere personal liability imposed on the commissioners.[1] Not only is it necessary that the requisite amount of stock should be subscribed, but, also, where more than the amount required is subscribed for, and an allotment is made which excludes certain subscribers, the company cannot, by increasing the amount of the capital stock, bind the subscribers so excluded to take the stock subscribed for by them. Thus, in a recent Massachusetts case,[2] A., with others, signed a paper which recited that a certain corporation had been incorporated, the capital stock of which was fixed at $50,000, and by the terms of which the subscribers agreed with each other and with the corporation to take the number of shares affixed to their respective names, and to pay therefor $100 a share. Opposite A.'s name was a certain number of shares. The whole number of shares subscribed for exceeded $50,000. At a meeting called for the purpose of organization, a committee was appointed to report the names of the subscribers to the original capital stock of $50,000. The committee reported a list of names not including A.'s. The meeting then voted to increase the stock to $100,000, and that all the subscribers be admitted to the company with the rights and privileges of stockholders under the agreement. A. subsequently paid three assessments on his stock. It was held that an action against him on the original paper, for a subsequent assessment, could not be maintained, even if he knew of these votes before paying his assessments.

SEC. 70. **Conditional subscriptions.**— Conditions also, affecting the liability of subscribers, may, of course, be expressly provided

[1] Blair v. Rutherford, 31 Tex. 465 (1868); Comm. v. West Chester R. Co. 3 Grant's Cas. 200; Mitchell v. Rome R. Co., 17 Ga. 574.

[2] Katama Land Co. v. Jernegan, 126 Mass. 155.

for in the contract; and unless they violate the fundamental law of the corporation, or are manifestly fraudulent, or must result in the prejudice of innocent parties, they will be upheld. Thus, where a subscription was made to the capital stock of a corporation upon the express condition that the company should not be organized, or should not enter upon the object of its organization, until a certain amount of its capital stock should be subscribed for, the supreme court of Maine held that such a condition was a condition precedent, and that the company was not authorized to enforce the collection of such a subscription until the conditions were complied with by the company.[1] And where, on the organization of a corporation, the number of shares of the capital stock and the sum to be paid on each are fixed by vote, and inserted in the agreement of subscription, the organization is not bound to proceed, and the subscribers may refuse to pay any part of their subscriptions until the requisite number of shares are subscribed for, as fixed by vote.[2]

And where stock was subscribed for on condition that the citizens of a certain town should take a certain amount of stock, it was held that no assessment could be properly made on the subscriber until the condition was complied with.[3] When the condition imposed is, that a certain number of shares shall be subscribed for, it is not competent for the subscriber to show that the number has not been subscribed for by persons pecuniarily responsible, or that the subscribers are insolvent, unless it appears that the corporation has acted in bad faith.[4]

[1] Penobscot, etc., R. Co. v. Dunn, 39 Me. 589; Chamberlain v. Ashtabula, etc., R. R. Co., 15 Ohio St. 225; Ashtabula, etc., R. R. Co. v. Smith, id. 328.

[2] Cabot, etc., Bridge Co. v. Chapin, 6 Cush. 50.

[3] Ticonic Water Power Co. v. Lang, 63 Me. 480.

[4] Penobscot R. Co. v. White, 41 Me. 512; Salem Mill-dam Co. v. Ropes, 9 Pick. 187.

If the corporation acts in good faith and parties are apparently able to pay, and they finally fail and are unable to pay, this will not render the organization illegal. Id.; Penobscot R. Co. v. Dummer, 40 Me. 172. But private arrangements with subscribers giving them peculiar advantages over others, would be null and void. Robinson v. P. & C. R. Co., 32 Penn. St. 334; Bavington v. P. & S. R. Co., 34 id. 358; New Albany, etc., R. Co. v. Fields, 10 Ind. 187; Downie v. White, 12 Wis. 176; White Mountains R. Co. v. Eastman, 34 N. H. 124; Mann v. Cooke, 20 Conn. 178; Mann v. Currie, 2 Barb. 294.

But Mr. Redfield observes: "Where subscriptions are made under an agreement that they are not to be binding unless a specified sum is subscribed, it is essential that there should be no conditions as to the liability of any of the subscribers not applicable to all.

SEC. 71. **Company may accept payment in labor, etc.**— By an act of the legislature of Pennsylvania, commissioners were apppointed to receive subscriptions to stock, for the purpose of constructing a railroad; and it was provided, that no subscription should be valid unless $5 should be paid on each and every share at the time of the subscription; that when a certain number of shares should be subscribed for, and the $5 paid on each, the same should be certified to the governor, who should thereupon issue letters incorporating the subscribers and those who might thereafter subscribe. The letters were issued and the company organized. It was held that a condition annexed to a subscription that it should be binding only when a certain amount of stock has been subscribed for was valid, and that a party subscribing on that condition could not be held liable until it was shown that the condition had been complied with, and that the installments were, subsequently, called in before suit brought; but that the company had a right to accept payment for stock in labor or materials or damages, or any other liability of the company, provided the transaction was *bona fide*.[1] But it has been held in North Carolina that a corporation can take nothing but money in payment for stock subscribed for, unless the charter so provides,[2] and, in any event, it would seem that the right to accept any thing but money must legally depend upon the object and purposes for which the corporation is formed, and upon the circumstance whether it can be *bona fide* regarded as an equivalent for money.

Confidential subscriptions, made for the purpose of making up the required sum, are a fraud upon the other subscribers, and should not be treated as valid subscriptions. Where, by deducting such confidential subscriptions, the required sum is not subscribed, the contract of subscription does not become operative so as to bind the subscribers. Parol evidence is admissible to show that certain of the subscriptions were confidential in character, and, therefore, fraudulent." New York Exch. Co. v. De Wolf, 31 N. Y. 273.

Where there is a subscription, upon the condition that no calls shall be made, until work should be commenced upon a particular section of the line, and the subscriber gave his note for the amount on the false representation of the agents of the company that the work had been commenced, it was held that the company could not recover upon the note. Taylor v. Fletcher, 15 Ind. 80.

[1] Philadelphia, etc., R. Co. v. Hickman, 28 Penn. St. 318. See, also, Vawter v. Ohio, etc, R. Co., 14 Ind. 174.

[2] Neuse River Nav. Co. v. Commissioners of Newbern, 7 Jones' L. 275. But where a subscription is payable in materials, it becomes payable in money, unless the materials are furnished on reasonable demand. Haywood, etc., Plankroad Co. v. Bryan, 6 id. 82.

Sec. 72. **The conditions may be waived.**— Where, however, there is a conditional subscription which is valid, subscribers may, by their acts, waive the same, and thereby become liable as though no condition had been imposed upon the company. Thus, where there was a condition in a subscription to the capital stock of a corporation that other stock to a given amount should be taken, it was held that this was waived by the conduct of the party, in paying the first installment on the subscription, voting the whole stock at an election for officers, and acting as an officer of the corporation.[1] So, where a person who made a subscription of land to the stock of a railroad company, on a condition precedent, it was held that he waived such condition by delivering an absolute deed of the land to the company, and receiving his stock.[2]

And where the subscribers to the stock of a railroad gave their notes for the amounts of their subscriptions, payable when the road should be completed; but were subsequently induced to take up these conditional notes and give new ones, to enable the company to carry out a contract for the completion of the road, payable in four years, within which time it was confidently and honestly stated and believed by the officers, at the time, that the road would be completed, it was held that the subscribers were liable upon the new notes, although the road was abandoned before any thing was done upon it, and the road never completed.[3] So, where a person participated in the proceedings creating a corporation, and to increase its stock and for making calls on the stock subscriptions, both as stockholder and director; in a suit against him to compel payment of his installment due and payable under such calls, it was held that he was estopped from denying the validity of the proceedings.[4]

Sec. 73. **When the condition is void.**— Corporations organized under the act of the legislature of Pennsylvania, of February 19, 1849, could receive no conditional subscriptions; and a subscription made to the commissioners under the act, conditional on the

[1] Dayton, etc., Railway Co. v. Hatch, 1 Dis. (O.) 84. See, also, Garling v. Baechtel, 41 Md. 305; Ossipee Manf. Co. v. Canney, 54 N. H. 295.

[2] Parks v. Evansville, etc., R. Co., 23 Ind. 567.

[3] Four Mile Valley R. Co. v. Bailey, 18 Ohio St. 208.

[4] Kansas City Hotel v. Harris, 51 Mo. 464.

location of the road on a special route, was held to be void so far as related to the condition, and was treated as an unqualified subscription.[1] But where the contract with the subscriber contained a condition that interest on sums assessed and paid in by subscribers should be allowed him, from the time of payment until the road should be put in operation, it was held that such a condition did not avoid the subscription,[2] and, generally, it may be said that, unless prohibited by the charter or general law, a subscription may be made conditional. Thus, a subscription to the stock of a railroad company that the subscriber will take a certain number of shares of the road, if it is located on a specified line, is valid,[3] and, upon a substantial performance of the condition, the subscription becomes enforceable. Thus, where a subscription was given for a certain number of shares in a railroad company, provided the road was located on a given route, and a freight-house and depot located at a given point, it was held that the subscription became enforceable after the road was permanently located according to the terms proposed, and that the provision in relation to the erection of the buildings was not a condition precedent to the right to collect the subscription, but a mere stipulation, the performance of which was not necessary to fix the right of the company to recover the subscription.[4] The fact that a condition is annexed to the subscription will not prevent a recovery, unless it is a condition precedent. Thus, a person subscribed for shares in the stock of a railroad company on the express condition that the company should locate and construct their railroad along a specified route, and, having paid one installment and part of the second, delayed the payment of the balance as the calls were made, until the company, as the road

[1] Pittsburgh, etc., R. Co. v. Biggar, 34 Penn. St. 455. See, also, Erie, etc., P. R Co. v. Brown, 25 id. 156; Philadelphia, etc., R. Co. v. Hickman, 28 id. 318; Bavington v. Pittsburgh, etc., R. Co., 34 id. 358; Bedford R. Co. v. Bowser, 48 id. 29.

[2] Rutland, etc., R. Co. v. Thrall, 35 Vt. 536. The subscription cannot be rescinded so as to affect the rights of innocent and *bona fide* creditors, while the corporation is insolvent. Putnam v. New Albany, 4 Biss. 365 (1869).

[3] Martin v. Pensacola, etc., R. R. Co., 8 Fla. 370; Evansville, etc., R. R. Co. v. Sheaver, 10 Ind. 244. And the subscription becomes payable only upon a substantial compliance with the condition. Chapman v. Mad River, etc., R. R. Co., 6 Ohio St. 119; Jewett v. Lawrenceburgh, etc., R. R. Co., 10 Ind. 539.

[4] Chamberlain v. Painesville, etc., R. R. Co., 15 Ohio St. 225.

was constructed along the route mentioned, suspended operations; after which payment was refused on the ground that though the road had been *located* by the company, they had not *constructed* it according to the condition in the subscription. In an action for the subscriptions, it was held that the promise of subscription being precedent to that of construction upon the part of the company, the defendant could not insist upon performance by the railroad company while he refused performance on his part; and that the road, having been located as stipulated, and completed so far as the means of the company would allow, it was a compliance with the condition, and that the plaintiffs were entitled to recover.[1]

Sec. 74. **Conditions which will avoid the whole contract.**— It is evident that there may be conditional subscriptions, which could not be justly enforced against the subscriber without a compliance with the precedent conditions for which he has stipulated, and when the conditions could not be enforced without great injustice to the company and others. Contracts of this character would be against public policy and entirely void. Thus, in an action by a plankroad company against a subscriber to the stock of the corporation, the facts were as follows: The plaintiff was duly incorporated under the general laws of New York, providing for incorporation of turnpike and plankroad companies;[2] and its articles of association thereunder were duly filed.

One article provided as follows: "For the purpose contemplated by these articles, the undersigned have severally subscribed for the number of shares of the capital stock of this association placed opposite their respective signatures hereto, and they severally agree, to and with each other, to pay to the said Fort Edward and Fort Miller Plankroad Company their respective subscriptions for said capital stock, whenever called for by said directors or their successors in office."

The defendant did not subscribe the articles; but subscribed an instrument, in writing, which, after reciting that at a meeting of the directors of the company, it was resolved that the directors

[1] Miller v. P & C. R. R. Co., 40 Penn. St. 237.

[2] Act of May 7, 1850.

adopt and establish a terminus of their road, some convenient point at or near Saratoga Bridge, commonly called Fort Miller Bridge, in the town of Greenwich, and that the directors cause to be constructed the whole of their road, extending from Fort Edward Village to said bridge, proceeded as follows: "Now we, the undersigned, subscribe for the number of shares to the Fort Edward and Fort Miller Plankroad Company, set opposite our respective names, upon condition that the road is extended to Fort Miller Bridge, so as to make that its southern termination."

This instrument was written in a book of the company, following the record of its articles of association. The company was organized to construct a road from the village of Fort Edward to the village of Fort Miller, a distance of about eight miles, with the privilege of extending it to a point near Saratoga Bridge, about two and one-half miles further. The suit was brought for the recovery of the defendant's subscription, the directors having made the calls for the payment of the whole amount of subscriptions to stock, and given the requisite notices thereof, pursuant to the act. Judgment was rendered against the defendant for the amount of the subscription. On appeal, BOWEN, J., said: "I think the instrument signed by the defendant is wholly void by reason of the condition therein contained. It was intended as a subscription to the capital stock of the company. The act under which the plaintiff was incorporated prescribes the manner of subscribing for the stock, and only authorizes absolute subscriptions. This case cannot be distinguished in principle from *Butternuts, etc., Turnpike Co.* v. *North.*[1] It was held in that case that to allow subscriptions to the stock of such a corporation to be received, conditioned that a particular location of the proposed road should be adopted, would be contrary to public policy, as by such means improper influences might be brought to bear upon the question of the location. The object had in view by the legislature, in authorizing the formation of these corporations, was the benefit to the public generally by providing for the construction of safe and commodious highways, so located as to be most convenient and beneficial. If the interest of the stockholders in such a company is allowed to control the question,

[1] 1 Hill, 518.

such a location and such a termination of the proposed road will almost invariably be adopted as will best subserve the public interest, when, if in order to procure the requisite amount of capital, subscriptions are allowed to be taken, conditioned that a particular location or terminus be adopted, public convenience will frequently be sacrificed to individual interest. By the articles of association of this company their road was to be constructed from Fort Edward to Fort Miller, a distance of eight miles, with the privilege of extending it to Saratoga Bridge, two and one-half miles further, and a large majority of the stockholders became such by subscribing the articles which left it optional with the directors whether the road should be extended. These stockholders had the right not only to expect but to require that it should not be extended, unless the interest of the company would be thereby promoted; but by receiving these conditional subscriptions the directors were obliged to extend the road, although every dollar expended for that purpose will be a total loss to the corporation, and none be benefited thereby except those at whose instance it was done."[1]

Sec. 75. **Conditional subscriptions continued.**— In other cases of a similar character the courts have held conditional subscriptions, where not expressly prohibited by law, in the nature of a proposition to the company, and not binding as a contract, until accepted. Thus, when a subscription was made for stock payable in certain land at a specific price, and conditioned that in case the company declined to take the land at the price named the subscription should be void, it was held that the subscription was a mere proposition, and until accepted by the company was not binding upon the subscriber, and that the acceptance could be made by the directors or other authorized agents.[2] If subscriptions to the stock of a corporation, organized to construct a road from one place to another, are made conditional upon the route

[1] Fort Edward, etc., Co. v. Payne, 15 N. Y. 583. See, also, Middlesex Turnpike Corp. v. Swan, 10 Mass. 384; Same v. Locke, 8 id. 268; La Grange, etc., Plank R. Co. v. Mays, 29 Mo. 64; Troy & Boston R. Co. v. Tibbits, 18 Barb. 297.

[2] Junction, etc., R. Co. v. Reeve, 15 Ind. 236. See, also, Bedford R. Co. v. Bowser, 48 Penn. St. 29.

When accepted under such circumstances they become absolute. See Chamberlain v. Painesville, etc., R. Co., 15 Ohio St. 225; Penobscot, etc., R. Co. v. White, 41 Me. 512.

or termini, if any change is made by the act or procurement of the company, the subscriptions are no longer binding.[1] The subscriptions, in the absence of other provisions as to time and mode of payment, import a promise to pay on demand, or in such manner as the directors might indicate, and on giving the notice required by law.[2] Where a person subscribed for stock upon conditions other than those named in the articles of incorporation, and subsequently paid five per cent thereon, in an action by the company to recover the balance of installments due on the subscriptions, and the defense was a want of mutuality, and that the condition on which the subscription was made had not been performed, it was held that there was such a concurrence in the new conditions as to bind the parties, and to constitute sufficient mutuality, so as to authorize a recovery.[3] When the charter of a company requires that certain things shall be done within a certain time or the franchise shall be void, a subscription to the stock ceases to be enforceable if the things are not done as required. Thus, where the charter of a hotel required that it should be completed in four years, otherwise that the franchise should be null and void, it was held that upon the failure to complete the hotel within the time the subscribers were released from their subscription,[4] although the legislature subsequently extended the

[1] Plankroad Co. v. Arndt, 31 Penn. St. 317. See, also, McCully v. Railroad Co., 32 id. 25.

[2] Dexter Plankroad Co. v. Millerd, 3 Mich. 91. See, also, Goshen Turnpike Co. v. Hurtin, 9 Johns. 218. The Duchess Manuf. Co. v. Davis, 14 id. 238; Plankroad Co. v. Arndt, 31 Penn. St. 317.

[3] Nichols v. Burlington, etc., Plankroad Co., 4 Green (Iowa), 42.

[4] Union Hotel Co. v. Hersee, 15 Hun, 373.

The facts as well as the rule of law adopted in this case are stated in the opinion of NOXON, J., as follows:

"The plaintiff was incorporated under an act of the legislature, passed April 12, 1871 (chap. 432), as a body corporate under the name of the "Union Hotel Company," with power to purchase real and personal property for the construction of a hotel in the city of Buffalo. The capital stock was $200,000, with power to the directors to increase the same to $500,000. The business of the company was to be managed by thirteen directors. Power also was given to borrow such sums of money as should be necessary for the purchase of lands and the construction of a suitable building. Section 7 of the act provided that the corporation shall commence the work of constructing such hotel within two years from the passage of the act, and complete the same within four years from the time of commencing the construction thereof; it further provided in said section, "if this section be not complied with, the franchise hereby granted shall become null and void."

Section 8 provided the act should take effect immediately. The said section 7 was amended by an act passed March 24, 1873 (chap. 123), as follows: "Section 7. Such corporation shall commence the work of constructing such hotel within five years from the passage of this act, and complete

time for the completion of the hotel, the court holding that this could not affect the defendant's subscription, because, being in the nature of a contract, the legislature had no power to alter it without his assent. But a subscriber may waive the condition, and such waiver may be implied from the acts of the subscribers, after the performance of the condition is no longer possible.[1] A condition in a subscription to be operative, must be a

the same within four years from the time of commencing the construction thereof. If this section be not complied with, the franchise hereby granted shall become null and void," and it was provided in said amended act that the same shall take effect immediately. By the provisions of the original act the time to commence the work of constructing such hotel expired April 12, 1873, and by the amended act such time expired March 28, 1878. The proofs in the case show that the lands were bought by contract, upon which lands a hotel was to be built, and that subsequently such lands by authority and resolution of the board of directors, passed February 2, 1876, was sold back to the parties of whom the land was bought. The president of the said hotel company testified, on the trial had March 2, 1877: "The project of building a hotel has been, I suppose, substantially abandoned."

The time designated for the commencement of the construction of said hotel having expired under the act of 1871, is an important question bearing on the liability of the defendant in this action. The action in this case was commenced on the 9th of February, 1876. At that time the period in which the plaintiff was bound to commence the work of construction of the hotel had not expired under the amended act, and at that time no provision of the acts operated to make the franchise null and void. There is no evidence before the court from which it appears that the commencement of the construction of a hotel by such corporation had not been commenced prior to March 24, 1878. If such proof was before the court, under the authority of a number of leading cases in the court of appeals, judgment could not be ordered by this court in favor of the plaintiff and upon the exceptions sent to this court to be argued. If the corporation is null and void, and in the eyes of the law dead, any order for judgment in favor of the plaintiff would be absolutely void. The point, therefore, taken by the defendant, that the plaintiff has no standing in this court, is not available here.

Another question raised is upon the liability of defendant upon his subscription, upon which the action is brought. The defendant signed a conditional subscription to take $5,000 of stock in the company. The condition was that $200,000 should be subscribed by the citizens of Buffalo. The act under which the subscription was made provided that the company should commence the work of constructing the hotel within two years from the passage of the act and complete the same in five years from the time of commencement of construction thereof. The fact was admitted on the trial, that plaintiff did not commence the work of constructing the hotel within two years, and did not complete the same in four years from the passage of the act of incorporation. The defendant's subscription was upon the terms and conditions provided by the act and the subscription.

The amendment passed in 1873 in no manner affected the defendant's subscription, which was in the nature of a contract which could not be altered without his assent, and there is no evidence of his assent. The motion for a nonsuit should have been granted on the ground alone that the construction of the hotel had not been commenced within two years after the passage of the act."

[1] Dayton, etc., R. R. Co. v. Hatch, 1 Dis. (Ohio) 84; O'Donald v. Evansville, etc., R. R. Co., 14 Ind. 259.

part of the contract, and a mere parol condition is inoperative.[1] If the charter or general law provides that no conditional subscriptions shall be made, a condition contained therein is inoperative and the subscriber is liable thereon the same as though no condition had been inserted therein.[2] A change in the name of a corporation by the legislature does not affect the validity of a subscription, as it does not alter the terms of the contract,[3] but, if one corporation, under power conferred by statute, sells its franchise and stock subscription to another corporation, the latter does not acquire the right to enforce the subscriptions.[4]

SEC. 76. **Fraudulent subscriptions.** — If a subscription is fraudulently made, and by collusion between the subscriber and the directors, the subscriber will not be permitted to take advantage of such fraud to defeat the rights and interests of *bona fide* holders of stock or creditors of the corporation.[5] And in Pennsylvania it has been held that a subscription is not only an undertaking to the company, but with all other subscribers; and even if fraudulent, and made for the purpose of inducing subscriptions, it is to be enforced for the benefit of the others in interest, and a subscriber will not be permitted to set up as a defense that the subscription was a feigned and fraudulent one, and that the company was a party to the fraud.[6] And when a person subscribes for stock, he cannot exonerate himself from liability to the company therefor, by assignment of the same to another without the consent of the company, unless authorized so to do by statute or the articles of association, and he is liable for all assessments legally made on the shares,[7] as the capital stock of a corporation is treated as a trust fund for the benefit of its creditors,

[1] Cunningham v. Edgerfield, etc., R. R. Co., 2 Head. (Tenn.) 28.

[2] Pittsburgh, etc., R. R. Co. v. Biggar, 84 Penn. St. 455.

[3] Bucksport, etc., R. R. Co. v. Buck, 68 Me. 80.

[4] West End R. R. Co. v. Dameson, 4 Mo App. 414.

[5] Minor v. Mechanics' Bank, 1 Pet. 46; Walker v. Devereaux, 4 Paige's Ch. 229; Selma, etc., R. Co. v. Tipton, 5 Ala. 787; Hayne v. Beauchamp, 13 Miss. 515.

[6] Graff v. Pittsburgh, etc., R. Co., 31 Penn. St. 489.

[7] Buckfield, etc., R. Co. v. Irish, 39 Me. 44; Fay v. Lexington, etc., R. Co., 2 Metc. (Ky.) 314; City Hotel v. Dickinson, 6 Gray, 586; Buffalo, etc., R. Co. v. Dudley, 14 N. Y. 336; Dayton v. Borst, 31 id. 435; Northern R. Co. v. Miller, 10 Barb. 260; Fort Edward, etc., v. Payne, 17 id. 567; Merrimac Mining Co. v. Levy, 54 Penn. St. 227.

and no transfer thereof can be made by which, as to the creditors of the company, a stockholder can relieve himself from liability for subscriptions to stock, and substitute that of another person.'

Sec. 77. **Subscriptions in contemplation of incorporation.** — A subscription to articles of association, setting forth amount of capital stock of the proposed company, and the number of shares, imports that the subscriber will take and pay for the number of shares set opposite his name.[2] And if made in contemplation of a charter of incorporation, it is *valid* and may be enforced by the company after it has become incorporated.[3] It constitutes a legal obligation of the subscriber, and can usually be enforced by action or by forfeiture of the shares or both, depending upon the constating instruments or articles of agreement.[4] If he subscribes

[1] Re Bacham, 12 Bankr. Reg. 223. And in case a corporation is being wound up, and its affairs are in the hands of a receiver, a shareholder, who is also a creditor under another contract, is not entitled to set off the debt due to him thereon against calls made by the receiver on his stock, nor to set off anticipated dividends against such calls. See Brice's Ultra Vires, 553; *Ex parte* Henry Winsor, 3 Story, 411; Cutler v. Middlesex Fac. Co., 14 Pick. 483; McLaren v. Pennington, 1 Paige, 102; Osgood v. Ogden, 4 Keyes, 70.

[2] Rensselaer, etc., R. Co. v. Barton, 16 N. Y. 457.

[3] Hamilton, etc., Plankroad Co. v. Rice, 7 Barb. 157; Tonica, etc., R. Co. v. McNeely, 21 Ill. 71; Johnson v. Ewing Univer., 35 id. 518. Unless the subscriber expressly dissents before the incorporation is completed. Gleaves v. Turnpike Co., 1 Sneed, 491; Dorris v. French, 6 T. & C. 581; 4 Hun, 292.

[4] Battershall v. Davis, 13 Barb. 323. See, also, Athol Music Assoc. v. Carey, 116 Mass. 471; Palmer v. Lawrence, 3 Sandf. 161, where Duer, J., said: "The law must be considered settled, that the obligation of actual payment is created in all cases by subscription to capital stock, unless the terms of the subscription are such as to plainly exclude it." Chester Glass Co. v. Dewey, 16 Mass. 94; Spear v. Crawford, 14 Wend. 20, where Sutherland, J., observes: "The promise of the defendant and the other subscribers, although in form to take the shares subscribed by them respectively, is, undoubtedly (when taken in connection with what precedes it, and with the act of incorporation which is there referred to and in part recited), a promise not only to take the shares, but to pay for them; to take them upon the terms and conditions set forth in the subscription paper."

And when shares are payable on a call of the directors, they are also in like manner payable on the call of a duly appointed receiver. Sagory v. Dubois, 3 Sandf. Ch. 466.

But in a recent case in Maine where the subscribers simply agreed to take the amount of shares set against their respective names, it was construed as imposing no personal obligation to pay for the shares; and that the construction of the agreement was not affected by a provision in the charter of the corporation purporting to render the subscriber liable for the balance remaining due after a sale of his shares. Belfast, etc., R. Co. v. Moore, 60 Me. 561 (1862); Johnson v. Wabash, etc., Co., 16 Ind. 389; Kidwelly Canal Co. v. Raby, 2 Price, 93, in which Baron Richards said: "If Raby [the defendant] had not endeavored to withdraw, there would have been no doubt of his

for stock upon preliminary articles he may refuse to sign second articles of association, when such are provided for and required to be signed and recorded under the provisions of the statutes for incorporation. But he cannot in any case withdraw his subscription for stock without the consent of his co-subscribers,[2] unless authorized so to do by the act of incorporation or by the terms of the contract itself.[1]

SEC. 78. **Fraud in relation to subscription.** — When a bank was incorporated under a lawful charter in Connecticut, but the parties who effected the organization fraudulently induced a person to subscribe for a portion of the stock by representing to him that his subscription would be merely nominal, and that he would not be required to pay for the stock; and the bank afterward issued a large amount of bills but soon failed and went into the hands of a receiver for the benefit of its creditors, in an action by the receiver against the subscriber, it was held that he could not, as a defense to the claim for the amount of the subscription, show the fraud or misrepresentation under which he had been induced to subscribe, as he and his associates constituted the bank, and he

liability; then the question becomes whether he has in fact withdrawn, and I think he has not, inasmuch as he could not do so without the consent of all those with whom he had become engaged in the undertaking." See, also, Selma v. Tennessee R. Co., 5 Ala. 786; Turnpike Co. v. Philips, 2 Penr. & Watts, 184.

Under the railroad law in New York, of 1848, a person could not render himself liable by subscribing a preliminary paper previous to the organization of the company, unless he subsequently subscribed the articles of association, or subscribed to the capital stock in the books directed by statute to be opened after the corporation is formed. Troy R. Co. v. Tibbits, 18 Barb. 297. See, also, Poughkeepsie P. R. Co. v. Griffin, 24 N. Y. 150; Erie R. Co. v. Owen, 32 Barb. 616; Lake Ontario R. Co. v. Mason, 16 N. Y. 451.

And when under the New York act of 1850, it was required that the subscriber should pay the directors ten per cent on the amount subscribed by him at the time of subscribing, and that no subscription should be received without the payment of such sum, it was held in the court of appeals of that state when ten per cent on the subscription was not paid at the time of subscription, but forty per cent was afterward paid, that this made the subscription a valid one. Black River R. Co. v. Clarke, 25 N. Y. 208.

And when the subscriber gave his note for the ten per cent instead of paying the money, and the company afterward received the money on the note, it was held that the subscriber was liable as such. Ogdensburgh R. Co. v. Wolley, 1 Keyes, 118. But see North Stafford Steele Co. v. Warth, L. R. Ex. 172.

[1] Bordentown, etc., T. Co. v. Imlay, 4 N. J. L. 285.

was a party with them in the fraud of the bank on the public.[1] So, it has been held in Illinois, that stock subscribed for must be paid, notwithstanding the giving of a note therefor was induced by the misrepresentations of the agents of the company as to the amount of stock then subscribed and the time within which the road would be completed.[2] And when a secret agreement was entered into between the directors of a railroad company and a subscriber, that he might within a specified time reduce the number of shares subscribed for, the subscription being made to appear *bona fide* for the purpose of inducing others to subscribe; in an action by the corporation for such subscription, it was held that the full amount might be recovered, as the stipulation to reduce the amount was a fraud on the other subscribers.[3] But the general rule is that subscriptions obtained by fraud cannot be enforced against the subscribers, and that although the rule of

[1] Litchfield Bank v. Church, 29 Conn. 137; Southern Plankroad Co. v. Hixon 5 Ind. 166.

[2] Goodrich v. Reynolds, 31 Ill. 490; Johnson v. Crawfordsville, etc., R. Co., 11 Ind. 280; Andrews v. Ohio, etc., R. Co., 14 id. 169; Hardy v. Merriweather, id. 203; Thornburgh v. Newcastle, etc., R. Co., id. 499; Dynes v. Shaffer, 19 id. 165. But see Wert v. Crawfordsville, etc., R. Co., id. 242.

[3] White Mt. R. Co. v. Eastman, 34 N. H. 124. See, also, Downie v. White, 12 Wis. 176; Crawford v. Pittsburg, etc., R. Co., 32 Penn. St. 141; Robinson v. Same, id. 334. When a charter has been obtained by means of fictitious subscriptions for part of the stock, and a fraud has been committed on a *bona fide* subscriber by which he has sustained or might sustain injury, no action can be maintained against him by the corporation for the amount of his subscription, unless such subscriber has accepted the charter and by his own acts has assisted in putting it in operation; in that case he cannot avail himself of the fact that part of the stock was fictitious. And if a stock company lets off a part of its subscribers and returns them their money, other subscribers, not consenting thereto, are discharged from all liability growing out of their original subscription. If a person is induced to subscribe for stock by means of representations which are not fulfilled, it has been held that he is not bound to take the stock. See, relating to the effect of fictitious stock, Center T. Co. v. McConahy, 16 S. & R. 140; Thorpe v. Hughes, 3 Mylne & Cr. 742; Crump v. U. S. Mining Co., 7 Gratt. 352; Southern P. R. Co. v. Hixon, 5 Ind. 166. But when a subscriber discovers such frauds he must renounce all benefits derived from his subscription or he will be responsible. Deposit Ass. Co. v. Ayscough, 6 E. & B. 761. See, also, County of Crawford v. Pittsburgh R. Co., 32 Penn. St. 141; Pittsburgh, etc., R. Co. v. Graham, 36; id. 77; Same v. Stewart, 41 id. 44; Connecticut R. Co. v. Baxter, 32 Vt. 805; Central R. Co. v. Kisch, L. R., 2 H. L. 99; Smith's case, L. R., 2 Ch. 604; Heyman v. European R. Co., L. R., 4 Eq. 154.

If the prospectus contains a material misrepresentation or misstatement of facts, the subscription induced thereby may be rescinded. Smith v. Reese Riv. Co., L. R., 2 Eq. 264; Ross v. Estates Investment Co., L. R., 3 Eq. 122; L. R., 3 Ch. 682; Waterhouse v. Jamieson, L. R., 2 H. L. Sc. 29. But the misrepresentation must be in reference to a material matter. Lenton v. McNeil L. R., Eq. 352; Hallows v. Fernie, L. R., 3 Ch. 467; Jackson v. Turquand, L. R., 4 H. L. 305.

evidence is that parol representations cannot be permitted to vary the terms of a written agreement, still this rule will not exclude parol evidence to show such fraud as would be allowed to vitiate any other contract.[1] In order to relieve himself from liability upon his subscription, not only must actual fraud be shown, but he must also show that he acted upon the false statements of the agents of the corporation in respect to matters of fact material to the value of the enterprise, and not upon the mere speculation of the directors, or upon his own exaggerated ideas of the prospective success and value of the business.[2] The rule that parol evidence

[1] See Blodgett v. Morrill, 20 Vt. 509; Conn., etc., R. Co. v. Bailey, 24 id. 465; Same v Baxter, 32 id. 805; Burrows v. Smith, 10 N. Y. 550; New York Exchange Co. v. De Wolf, 31 id. 273; S. C., 5 Bosw. 593; Coil v. Pittsburgh Female Coll., 40 Penn. St. 439; Kennebec R. Co. v. Waters, 34 Me. 369; Piscataqua Ferry Co. v. Jones, 39 N. H. 491; Martin v. Pensacola Coal Co., 8 Fla. 370; Rives v. Railroad Co., 30 Ala. 92; Smith v. Same, id. 650; Hester v. Memphis R. Co., 32 Miss. 378; Walker v. Mobile R. Co., 34 id. 245; Ellison v. Same, 36 id. 572; Henderson v. Railroad Co., 17 Tex. 560; La Grange R. Co. v. Mays, 29 Mo. 64. The general rule of evidence is that parol statements and representations, or agreements made at the time of the execution of a written contract, and inconsistent with the written terms of the same, are inadmissible and void, unless fraud is shown. Thornburgh v. Newcastle R. Co., 14 Ind. 499: Johnson v. Crawfordsville R. Co., 11 id. 280; Hardy v. Merriweather, 14 id. 203; Kennebec R. Co. v. Waters, 34 Me. 369; Wight v. Shelby R. Co., 16 B. Monr. 4, New York Exch. Co. v. De Wolf, 5 Bosw. 593; Mississippi R. Co. v. Cross, 29 Ark. 443; Smith v. Plankroad Co., 30 Ala. 650.

Oral evidence is inadmissible to vary the terms of a subscription to the stock of a corporation, unless it tends to show fraud or mistake. But where the subscriber is really misled, and induced to subscribe for stock upon the representation of a state of facts in regard to essential matters made by those who take up the subscription, and in good faith and upon proper inquiry and the exercise of reasonable discretion, believed by the subscriber, and which constitutes the prevailing motive and consideration for the subscription, and which proves false, it would seem that the contract of subscription should be held void, both in law and equity. Wight v. Shelby R. Co., 16 B. Monr. 5; Blodgett v. Morrill, 20 Vt. 509; Kennebec & Port. R. Co. v. Waters, 34 Me. 369; Henderson v. Railway Co., 17 Tex. 560. But if the location of a railroad is different from that provided in the charter, it has been held that the subscriber may lose his right to object thereto, and to paying his subscription on the ground, unless he resorts to *mandamus* or injunction at the earliest convenient time. Booker, *ex parte*, 18 Ark. 338; Brownlee v. Ohio, Ind. & Ill. R. Co., 18 Ind. 68.

[2] Jennings v. Broughton, 22 L. J. (N. S.) Ch. 585. A false statement by an agent of the company soliciting stock subscriptions that the company already had enough subscriptions to finish the road in a specified time, and sought others from persons living on the line of the road only as evidence of friendliness, was held to bear merely on matters of expectation and opinion, and not to suffice to void the subscription. Bish v. Bradford, 17 Ind. 490; Brownlee v. Ohio, etc., R. R. Co., 18 id. 68; Parker v. Thomas, 19 id. 213; Hardy v. Merriweather, 14 id. 203.

The defendant, sued on his subscription for stock in a turnpike company, answered that he was illiterate and could not read, and did not hear the articles of association read; but a party to them, interested in obtaining subscriptions, induced him to sub-

cannot be admitted to alter or deny the terms of a written contract has no application where it is merely sought to establish substantial fraud inducing the party to enter into the contract.[1]

scribe by his false representation that the articles did not require a payment of subscription until $20,000 had been subscribed. It was held that these averments set up a sufficient ground of defense. Wert v. Crawfordsville, etc., Co., 19 Ind. 242. But parol declarations made by officers of a company on public occasions, if admissible at all to invalidate a subscription for stock, cannot avail a subscriber who does not show that such declarations *amounted to fraud on the part of the company inducing error on his own part when he subscribed.* Vicksburgh Railroad v. McKean, 12 La. Ann. 638.

Representations as to the value of the land given to the company by the United States, and as to the probable cost and profit of the road, and the means of the company, are but the opinions of the agent, which the subscriber has no right to rely on, the falsity of which is no ground for avoiding the contract; Walker v. Mobile, etc., R. R. Co., 34 Miss. 245; and in the same case it was held that a colorable subscription by a person of influence, shown to the defendant to induce him to subscribe, does not avoid his subscription, *unless, relying on it, he was thereby induced to subscribe.*

Fraudulent representations by an officer of a corporation at a public meeting, in presence of a majority of the directors, not in pursuance of any authority from their board, will not discharge a subscriber to stock. Buffalo, etc., R. R. Co. v. Dudley, 14 N. Y. 336.

A fraudulent representation by an agent to obtain subscriptions to the stock of a company avoids the subscription, but an unperformed promise to obtain for the subscriber stock in another company, or an honest mistake as to the probable expense of the improvement, will not. Crossman v. Penrose F. B. Co., 26 Penn. St. 69

When an agent of a corporation, for the purpose of selling its stock, made certain representations of the company and its prospects, which subscribers said were false and fraudulent, and were beyond what was stated in the prospectus, and reports of the company, it was held, in an action by the company against a subscriber to recover his subscription, that evidence of the fraudulent and false representations of the agent were admissible on the part of the defendant, and that it was a question of fact for the jury whether or not the subscriber, from all the circumstances in the case, was deceived by the agent, and where a corporation issued a prospectus and reports of its condition for the purpose of selling its stock, it was held that if there were any false statements contained in such proposals, *as to material facts, which misled purchasers to their injury, and in which the purchasers trusted to the agents of the corporation,* the contract of sale was void, whether the corporation did this knowingly or not. The same rule was applied to the concealment of material facts. Crump v. U. S. Mining Co., 7 Gratt. (Va.) 352.

A corporation is liable for false and fraudulent *material representations* made by its agents who are engaged in soliciting stock subscription and representations by such agents that the company was in good condition and repute, earning on the completed portion of its road four and one-half per cent on the entire cost of the road, etc., etc., when it was a fact known to these agents that the road was on the verge of bankruptcy, without credit, and its stock and bonds of little value, was held sufficient ground for the rescission of subscriptions made on the strength of such representations. Waldo v. Chicago, etc., R. R. Co., 14 Wis. 575.

[1] New Orleans, etc., R. R. Co. v. Williams, 16 La Ann. 315; Crump v. United States Mining Co., 7 Gratt. 352; Henderson v R. R. Co., 17 Tex. 560; Rives v. Plankroad Co, 30 Ala. 92; Wert v. Crawfordville, etc., Co., 19 Ind. 242.

But in no case can a party be permitted to prove that certain fraudulent representations or agreements were made *which are inconsistent with the terms of the subscription*,[1] nor as to the effect of the agreement, or what it contains,[2] as a party is bound to know the contents of an instrument which he signs, and its effect, and has no right to rely upon the representations or judgment of the other party in that regard, and if parol evidence was admissible to override an agreement upon this ground, greater mischiefs would result than could possibly ensue from holding a party up to strict liability where he has been misled as to the effect of his contract by relying upon the statement or judgment of the other party. In order to relieve a party from liability on the ground of fraud, misrepresentations as to matters which are not matters of judgment or opinion, as to existing facts not affecting the terms of the contract itself, must be shown, and it is not competent to show that the officers of the company or the persons procuring the subscriptions represented that the company would do certain things which it has not done and did not intend to do,[3] or as to the future prospects, and value of the enterprise[4] or as to the probable expenses of the company.[5] Nor can a subscriber for stock be relieved from the payment on the ground of a fraud to which he was a party,[6] nor if he has been guilty of *laches* in asserting the fraud.[7]

SEC. 79. **Rules depend upon the statutes or constating instruments.** — In regard to the liability of subscribers for subscriptions to capital stock, it is difficult to lay down general or universal principles applicable to all cases, as it usually depends upon the charter or act, or articles of association; and these vary in the same as well as different states. In order to determine the various questions

[1] Blodgett v. Morrill, 20 Vt. 509; Conn. & P. R. Co. v. Bailey, 24 id. 465; Johnson v. Crawfordville R. R. Co., 11 Ind. 280; Piscataqua Ferry Co. v. Jones, 39 N. H. 491; Smith v. Plankroad Co., 30 Ala. 650.

[2] Thornburgh v. Newcastle, etc., R. R. Co., 14 Ind. 499.

[3] Martin v. Pensacola, etc., R. R. Co., 8 Fla. 370; Vicksburgh, etc., R. R. Co. v. McKean, 12 La. Ann. 638; Carlisle v. Evansville, etc., R. R. Co., 13 Ind. 477; Mississippi, etc., R. R. Co. v. Cross, 20 Ark. 443.

[4] Vawter v. Ohio, etc., R. R. Co., 14 Ind. 174; Salem Mill Dam Corporation v. Ropes, 9 Pick. 187.

[5] Walker v. Mobile, etc., R. R. Co., 34 Miss. 245; Ogilvie v. Knox Ins. Co., 22 How. (U. S.) 380.

[6] Graff v. Pittsburgh, etc., R. R. Co., 31 Penn. St. 489; Southern Plankroad Co. v. Hixon, 5 Ind. 165; Litchfield Bank v. Church, 29 Conn. 137.

[7] Dynes v Shaffer, 19 Ind. 165.

relating to the subject which may arise, it is necessary to consult the organic and fundamental laws of the institution; and although some illustration of rules of construction of the corporate contract, and of the relations of the subscriber to the company, may be obtained from adjudications in other states under similar laws, yet it frequently happens that the questions presented only occur and are adjudicated in the state where the corporation is created.[1]

Sec. 80. **Defense to subscription on other grounds.** — It is a general rule that a corporation seeking to recover a subscription must show a strict compliance with the requirements of the laws under which it was constituted, where a defense is made on the ground of its failure in this respect.[2] But in some cases a compliance will be presumed, and in others it will be treated as waived by the subscriber. Thus, the payment of installments on the stock subscribed for would usually be considered, as we have noticed, a waiver of the failure of strict performance of a conditional subscription and a recognition of the legal organization and existence of the corporation by the subscriber, so as to enable the company to recover the balance of the subscription.[3] And where a party subscribed for stock in and assisted in organizing a plankroad company, it was held that he could not avoid the payment of the stock subscribed for on the ground of a failure of the company to strictly conform to the law in completing its organization.[4] If a subscription to the stock of a railroad company is made upon condition that the road shall be permanently located over a certain route, if it is so located, the condition is met, and the completion of the road is not a condition precedent to a right to recover the subscription.[5] It is no defense to an action for an assessment that a certificate has been issued to him, reciting that it is "non-assessable," as that is merely a stipulation against assessments after the subscription is paid.[6] Nor is a stockholder released from his subscription because the directors have purchased from themselves or their friends, property for the use of the cor-

[1] 1 Redf. on Rail., § 32.
[2] Nelson v. Blakey, 47 Ind. 38.
[3] Maltby v. North Western R. Co., 16 Md. 422.
[4] Central Plankroad v. Clemens, 16 Mo. 359; Lane v. Brainerd, 30 Conn. 565.
[5] Berryman v. Cincinnati Southern Ry. Trustees, 14 Bush, 755.
[6] Upton v. Trebilcock 91 U. S. 45.

poration at exaggerated prices in fraud of the company.[1] In the case last cited, the defendant signed a paper, with others, whereby he and they agreed to unite in the formation of a company for the exclusive use and sale of a patent, called Noyce's patent for preserving fruit, each agreeing to take a certain number of shares. Afterward the defendant and nine others executed and acknowledged the certificate of incorporation required by law. The company, having failed to exercise its privileges within a year after its incorporation, was dissolved, and a receiver was appointed, and in action by him against the defendant to recover the amount due upon his subscription, he defended upon the ground that the directors, in fraud of the stockholders, purchased the patent at a greatly exaggerated price; also because he was not a stockholder, and that the company was never legally incorporated. As to the last two grounds of defense, the court held, according to the universal rule, that a corporation, when formed, may enforce payment of a subscription made *before* the corporation had a legal existence.[2] As to the defense that the defendant was released because of the fraud of the directors, the court, in denying the validity of the defense, by GILBERT, J., said: "Among the defenses pleaded, one was that some of the promoters of the company, who signed the certificate of incorporation and were named therein as trustees, were intrusted with the duty of purchasing the patent right, under which the business of the company was conducted; that they purchased it, in fact, of themselves and their associates, for the corporation, for the price of $50,000, whereas the real price was $16,000, and that the difference was divided between them and their associates. This, if true, was a gross fraud, and no proof of an actual intent to cheat, beside the matter itself, in such a case, is requisite to invalidate the transaction. The persons who undertook the duty of purchasing the patent thereby became agents of the corporation for that purpose. The same principles are applicable to them, as govern the relation of trustee and *cestui que trust*. They were bound not to do any thing which could place them in a position inconsistent with the interest of their principal. Agents are not permitted to

[1] Dorris v. French, 4 Hun, 292.
[2] Buffalo, etc., R. R. Co. v. Hatch, 20 N. Y. 161, Burr v. Wilcox, 22 id. 551; Strong v. Wheaton, 38 Barb. 622.

become secret vendors of property which they are authorized to buy for their principals, or indeed to deal validly with their principals in any case, except where there is the most entire good faith and full disclosure of all facts and circumstances, and an absence of all undue influence, advantage or imposition. Nor will an agent, employed to purchase, be permitted, unless by plain and express consent of his principal, to make any profit out of the transaction.[1] If those who made the purchase for $16,000 were at the time acting as projectors or promoters of the company, they can make no profit at the company's expense by a purchase and resale.[2] The injury occasioned by the alleged fraud, however, was done to the corporation, and not to the defendant. It constitutes no defense to an action at law, brought by the corporation or its receiver, to recover his subscription to the capital stock. The only mode of making it available to the defendant would be by a bill in equity in which the persons accused of fraud, as well as the corporation, would be necessary parties." The fact that the directors have released some of the subscribers from their subscription does not necessarily discharge others, although circumstances may exist which will have that effect.[3] The failure of the agent of a corporation to deliver to it the original subscription paper does not discharge those who subscribed,[4] nor that the commissioners appointed to receive subscriptions failed to obey the provisions of the charter requiring them to exact a certain per cent in cash from each subscriber,[5] nor that a greater amount of subscriptions, in the aggregate, have been received than is authorized,[6] or that the corporate property has been seized on execution, or by the state.[7]

Sec. 81. **Changes in charter.** — Changes made in the charter by procurement of a corporation and acted upon by it, that affect the

[1] Story's Eq. Jur., § 315; Dally v. Wonham, 33 Beav. 154; Bentley v. Craven, 18 id. 75; Tyrrell v. Bank of London, 10 H. L. Cas. 26; Beck v. Kantorowitz, 3 K. & J. 230.

[2] Foss v. Harbottle, 2 Hare, 489; Densmore Oil Co. v. Densmore, 64 Penn. St. 49; McElhenny's Appeal, 61 id. 188.

[3] Memphis Branch R. R. Co. v. Sullivan, 57 Ga. 240, Macon, etc., R. R. Co. v. Vason, id. 314

[4] Pickering v. Templeton, 2 Mo. App. 424.

[5] Blair v. Rutherford, 31 Tex. 465; Garrett v. Dillsburgh, etc., R. R. Co. 78 Penn. St. 465.

[6] Oler v. Baltimore, etc., R. R. Co., 41 Md. 583.

[7] Mullins v. North, etc., R. R. Co., 54 Ga. 580.

entire objects and purposes for which it was instituted, where there is no provision in the fundamental law for so doing, would release the subscribers to the original stock from liability for the same.[1]

The rule may be said to be that, if the name and fundamental purposes of a corporation are changed, under such circumstances that it can be said to operate as a fraud upon the subscribers to the original stock, they are thereby released from their subscriptions. Thus by the supplement to an act incorporating an iron and railroad company, the name of the company was changed, and authority was given to purchase and cancel the original stock, and the main purpose of the new company was to be that of a general transportation company. It was held to be a fair question for the jury, whether a combination to change the fundamental purpose of the original act by the supplement, and divert the stock of an original subscriber to this new end, was not a fraud upon him; and if they so found, that an action upon the original subscription could not be sustained.[2] But a change in the act of incorporation enlarging the powers of the company, but not authorizing a material departure from the original design for which it was instituted, would not release those who have subscribed for the stock.[3]

A subscriber to the capital stock of a corporation agrees to be subject to the reasonable rules and regulations which may from time to time be adopted, and he cannot avoid payment of his subscription because the charter has been amended on the application of the directors, and the amendment accepted by them, reducing the number of days' notice of the call for subscription.[4]

And where the law under which a company is instituted authorizes consolidation of the corporation with others, the exercise of this power will not discharge a subscriber from his obliga-

[1] Burrows v. Smith, 10 N. Y. 550; McCray v. Junction R. Co., 9 Ind. 359; Booe v. Same, 10 id. 93; Union Locks & Canals v. Towne, 1 N. H. 44; Thompson v. Guion, 5 Jones (S. Car.), 113; Marietta, etc., R. Co. v. Elliott, 10 Ohio St. 57; Woodhouse v. Commonwealth Ins. Co., 54 Penn. St. 307.

[2] Southern Penn. Iron Co. v. Stevens, 87 Penn. St. 190.

[3] Pacific R. v. Hughes, 22 Mo. 291. A change in the name of a corporation does not affect the validity of a stock subscription. Bucksport, etc., R. R. Co. v. Buck, 68 Me. 80.

[4] Illinois River, etc., R. Co. v. Beers, 27 Ill. 185.

tion.[1] So, a grant of additional powers to a corporation by an amendment of the charter, if accepted, is not always such an invasion of the contract of subscription as will relieve a subscriber from his liability to pay.[2]

A subscription to joint stock is not only an undertaking with the company, but also with all the other subscribers, and for this reason, if for no other, a subscriber cannot be permitted to set up a secret parol agreement with the agents of the company by which he may be released from *his* subscriptions, while the other subscribers continue to be bound,[3] nor can a person who is appointed to receive subscriptions for stock, who has himself subscribed for stock and taken the subscriptions of others, release himself from liability thereon by erasing his name from the subscription lists before turning it over to the corporation.[4]

Sec. 82. **Assessments and calls for payments.** — Power is usually vested in the corporation or the directors to make assessments and calls on the subscribers for the capital stock subscribed by them. The organic law of the corporation, or the by-laws, usually provide for the time and mode of payment of subscriptions, and that a certain amount or per centum of the whole shall be paid at stipulated times, or on a call therefor, made by the proper agents, and on notice thereof given to the subscribers. These provisions are also frequently incorporated in the written contract of subscription, or made a part of it.

The rights and liabilities of subscribers must depend upon the nature of the engagement, the express promise made, or the statute or articles and by-laws of the corporation.[5]

[1] Bish v. Johnson, 21 Ind. 299; Hanna v. Cincinnati, etc., R. Co., 20 id. 30. See on the subject of consolidation, *post*, chap. 16.

[2] Gray v. Monongahela Nav. Co., 2 W. & S. 156. See, also, Terre Haute, etc., R. Co. v. Earp, 21 Ill. 291. But see Supervisors v. Mississippi R. Co., id. 338, where subscribers were held released.

[3] Miller v. Hanover Junction & S. R. R. Co., 87 Penn. St. 95.

[4] Cheraw, etc., R. R. Co. v. White, 10 S. C. 155.

[5] See, also, Tippets v. Walker, 4 Mass. 495; Palmer v. Ridge Mining Co., 34 Penn. St. 288; Littleton Manufacturing Co. v. Parker, 14 N. H. 543; Knowles v. Beatty, 1 McLean, 41; Small v. Herkimer Manufacturing Co. 2 Comst. 330; Worcester T. Co. v. Willard, 5 Mass. 80; Andover T. Co., v. Gould, 6 id. 40; Atlantic Delaine Co. v. Mason, 5 R. I. 463; Odd Fellows' Hall Co. v. Glazier, 5 Harr. (Del.) 172. But a statute authorizing a corporation to levy assessments upon its stockholders who have paid the full amount of their subscriptions, and who are not otherwise liable, is

SEC. 83. **Promise to pay. Effect of. By whom calls should be made.** — A promise to pay, without limitation or qualification in the manner referred to, would make the subscriber liable on demand by the proper agent.[1] But, in order to render such a promise binding, the call must be valid and made by the proper officials, unless at the time it was made the stockholders knew of its invalidity, or was an active participant in procuring it to be made,[2] in which case he is estopped from setting up an objection that the call was not duly made.

On the subject of calls Mr. Brice observes: "Companies having their capital divided into shares have, as incident thereto, the power to make calls. It is purely a question of internal arrangement, in whom this power is vested. It will generally be in the directors; and where it is so, a call made by those who are actually directors and not yet removed will be good.[3] But if made by persons not having the power,[4] or not acting at a board meeting when this is required, the call will be simply nugatory.[5] Calls must in all respects, both as to times and amounts, be made, whether by the company in general meeting or the directors, in

unconstitutional. Ireland v. Palestine T. Co., 19 Ohio St. 369 But if the legislature has a reserved right to amend, alter or repeal a charter, it has been held that they could authorize a corporation to assess stockholders to make up losses, although the original charter provided that no stockholder should be liable beyond the amount of his shares for any loss sustained by the company, or any debt due on the shares. Gardner v. Hope Ins. Co., 9 R. I. 194.

The liability may depend upon either the express agreement entered into, or the agreement and the provisions of the constating instruments, or the agreement as it must be interpreted by them. See Penobscot R. Co. v. Bartlett, 12 Gray, 244; Franklin Glass Co. v. Alexander, 2 N. H. 380; Portland R. Co. v. Graham, 11 Metc. 1; Kennebec R. Co. v. Kendall, 31 Me. 470. But an agreement to "pay and fill" shares in a railroad company has been held to include an agreement to pay all assessments legally made. Buckfield R. Co. v. Irish, 39 Me. 44; Penobscot R. Co. v. Dunn, id. 587; Penobscot R. Co. v. Dummer, 40 id. 172; Penobscot R. Co. v. Bartlett, 12 Gray, 244.

[1] Taunton Turnpike Co. v. Whiting, 10 Mass. 327; Worcester Turnpike Co. v. Willard, 5 id. 80; Salem Mill Dam Co. v Ropes, *ante;* Boston, Barre & Gardner R. R. Co. v. Wellington, 113 Mass. 79; City Hotel v. Dickinson, 6 Gray, 586.

[2] Ossepee Manuf. Co. v. Canney, 54 N. H. 295; Macon, etc., R. R. Co. v. Vason, 57 Ga. 314; Kansas City Hotel v. Harris, 51 Mo. 464; Willamette Freighting Co. v. Stamus, 4 Oregon, 261.

[3] Swansea Dock Co. v. Levien, 20 L. J. Ex. 447. Compare Southampton Dock Co. v. Richards, 1 Man. & Gr. 448. See, also, York, etc., R. Co. v. Ritchie, 40 Me. 425; Roberts v. Ohio, etc., R. Co., 32 Miss. 373; Hays v. Pittsburgh, etc., R. Co, 38 Penn. St. 81; Ross v Lafayette, etc., R. Co., 6 Ind. 297.

[4] Howbeach Coal Co. v. Teague, 5 H. & N. 151.

[5] Kirk v. Bell, 16 Q. B. 290.

such a way as to press equally upon all.[1] And for the furtherance of corporate purposes, *i. e.*, for the *bona fide* purpose of obtaining capital, and not to enable any particular members to escape or to lessen their liabilities.[2] Of course, calls can be made only for purposes not *ultra vires* of the corporation. If it is intended to devote the proceeds to other purposes, the call imposes no liability either at law or in chancery upon a shareholder." [3]

Sec. 84. **Diversion of capital to other purposes.** — In this country it has been universally held, that no majority of either the corporators or of the directors can divert the capital stock of a corporation to any purpose not consistent with the original purposes of the organization; that the business of the corporation cannot be changed, abandoned or sold without the consent at least of all the corporators; that when a person takes stock in a corporation, he enters into, at least, an implied contract with the company that his interest in the corporation shall be subject to the direction and control of its proper managers in the legitimate prosecution of the business for which the corporation was created; [4] but not

[1] Preston v. Grand Coll. Dock Co., 11 Sim. 327.

[2] Richmond and Painter's cases, 4 K. & J. 305; Gilbert's case, L. R., 5 Ch. 559.

[3] Green's Brice's Ultra Vires, 150. See, also, South Eastern R. Co. v. Hebblewhite, 12 A. & E. 497; Shropshire, etc., R. Co. v. Anderson, 3 Ex. 401; Welland R. Co. v. Blake, 6 H. & N. 410.

[4] Kean v. Johnson, 1 Stockt. 401; Black v. Delaware, etc., R. Co., 7 C. E. Green, 130; S. C., 9 id. 455; Zabriskie v. Hackensack, etc., R. Co., 3 id. 178; Clearwater v. Meredith, 1 Wall. 25; Hartford, etc., R. Co. v. Crosswell, 5 Hill, 383; McCray v. Junction, etc., R. Co., 9 Ind. 358; Winter v. Muscogee, etc., R. Co., 11 Ga. 438; Middlesex T. Co. v. Locke, 8 Mass. 268; Sprague v. Ill., etc., R. Co., 19 Ill. 177; Union Locks Co. v. Towne, 1 N. H. 44: Stevens v. Rutland, etc., R. Co., 29 Vt. 545; Danbury, etc., R. Co. v. Wilson, 22 Conn. 435; Hartford, etc., R. Co. v. Croswell, 5 Hill, 383; Delaware, etc., R. Co. v. Irick, 3 Zabr. 321; Kenosha, etc., R. Co. v. Marsh, 17 Wis. 13; Hays v. Railroad Co., 61 Ill. 422. Where an illegal contract or transaction is only partially performed, there is a *locus penitentiæ*, and either party may rescind the contract. Thus in a case where A. subscribed for shares in the capital stock of a corporation, in increase of its stock, and the proceeding was illegal, because in contravention of the statute under which the corporation was organized, and he paid a certain sum as an installment on his subcription, on the first call, and by the subscription he was to forfeit all he had paid if he failed to pay subsequent calls; and he so failed, and, after the corporation had declared his rights to be forfeited, but before any scrip had been issued for the new stock, the corporation abandoned the plan of increasing the stock. In an action by him against the corporation to recover back the sum paid by him as such installment, held, that he was entitled to recover it. Knowlton v. Congress Savings Co., 14 Blatchf. (U. S. C. C.) 364. The articles of a manufacturing company created by the Pennsylvania act of 1865, p. 387, provided that the capital stock should be $140,000, divided into two thousand

that he must submit to assessments or calls made to carry out purposes foreign to its original objects.

A court of chancery will interfere to restrain calls that are already made for an illegal object; but will not when the application of the proceeds is within the scope of the authority of the corporation, or of those authorized to make the call.[1] But where the purpose of those who make the call, and in whom this power is vested, for legitimate purposes, is to devote the proceeds to purposes not authorized by law, it imposes no obligation upon the shareholders either in law or equity.[2] The articles of incorporation frequently provide, that when the capital stock, or a certain portion of it, shall have been subscribed, the directors shall have authority to call in the capital stock at such times as to them may seem best for the interest of the company, not exceeding a certain

eight hundred shares of $50 each, and that the subscribers should give their notes, without interest, for the amounts respectively subscribed, which notes should not be liable, at any time, to an assessment for more than fifty per cent of their face, nor to an assessment of more than twenty per cent within eighteen months from the organization of the company. It was held;

1. That the legal meaning of this provision was that, with ultimate relation to creditors, the capital was of the full residuary amount of $140,000, but such calls for payments on the stock as might from time to time be made by the corporate authorities, in the course of the active business of the company, as a solvent concern, should not exceed one-half of that amount. Accordingly stockholders were not absolved from liability to creditors for so much of the whole $140,000 as might be required for the payment of the debts.

2. That the operation of the articles as to creditors could not be altered by inserting a provision in the notes given by the stockholders in payment of the stock subscribed, that all dividends should be credited proportionately upon it until its full amount, by reason of credits by assessments and dividends, should be paid, when the same should be returned, and in lieu thereof a paid-up certificate of stock be issued.

3. That on the bankruptcy of the company, and the deficiency of other assets exceeding the whole unpaid amount of the $140,000, the stockholders were liable to the assignee in bankruptcy for their respective proportions of such unpaid amount. Wilbur v. Glen Iron Works, 18 Bankr. Reg. 178.

[1] See Green's Brice's Ultra Vires, 152, and notes.

[2] Mann v. Prentz, 2 Sandf. Ch. 258; Sagory v. Dubois, 3 id. 466; Everhart v. West Chester, etc., R. Co., 28 Penn. St. 339; Graff v. Pittsburgh, etc., R. Co., 31 id. 489; Hays v. Pittsburgh, etc., R. Co., 38 id. 81; Hartford, etc., R. Co. v. Boorman, 12 Conn. 530. In Pennsylvania a subscription conditioned for the prosecution of the construction of a railroad will be barred, unless the condition be performed, and a call made within six years. Pittsburgh, etc., R. Co. v. Graham, 36 Penn. St. 77. But, where no time is fixed for payment, and the same is left subject to call, the statute only begins to run from the date of each call. Pittsburgh, etc., R. R. Co. *v.* Plummer, 37 Penn. St. 413; Western R. R. Co. *v.* Avery, 64 N. C. 491 · Wood on Limitation of Action, 326.

per centum thereof, at or within a certain time, and to give notice thereof, in some manner, to the subscribers.

The remedy, for a failure to pay, may, by virtue of stipulations or provisions of the constating instruments, be confined to a forfeiture or sale of the shares of the delinquent party, or the sum paid thereon; or it may be against the subscriber personally; or, the company, by virtue of the contract, may be entitled to either or all of these remedies. If power is conferred on a corporation to sell the stock of a subscriber in default of payment of his subscription, it has been held that this is not exclusive of the usual remedy by suit, to recover the amount due.[1]

Sec. 85. **Forfeiture of stock.** — The general doctrine is, that a subscriber cannot rescind his contract by suffering a forfeiture of his stock for non-payment, or of the sums paid thereon, but that the right of forfeiture belongs exclusively to the corporation, and can only be exercised by it. It may usually waive the right to forfeiture, and resort to the common-law remedy of action on the express contract to pay the amount of the subscription, unless it is otherwise provided.

If the remedy of strict forfeiture is pursued, this would usually be considered satisfaction of the claim and a bar to a suit for the amount due on the subscription contract. But whether it is a bar or not would depend upon the provisions of the contract with the company, or the provisions of the act or articles of incorporation. It might be a cumulative remedy in a larger sense than a mere choice of remedies. The fundamental law of the corporation might undoubtedly provide for a sale of stock of delinquent subscribers to satisfy the unpaid dues.[2] But unless the power to

[1] See *post*, chap. 16, on Execution and the Appointment of Receivers. Goshen Turnpike Co. v. Huntin, 9 Johns. 217; Troy & Rutland R. R. Co. v. Kerr, 17 Barb. (N. Y.) 581; Northern R. R. Co. v. Miller, 10 id. 260; Selma & Tennessee R. R. Co. v. Tipton, 5 Ala. 787; Kennebec & Portland R. R. Co. v. Palmer, 34 Me. 366. The right of forfeiture belongs with the company. Turnpike Co. v. Imlay, 4 N. J. L. 285, Sleevant v. Anglo-California Gold Mining Co., 17 Jur. 257. But the question as to the right of a company to sell the stock and pursue the stockholder for the balance, or as to whether it may do both, or only sell the stock, depends upon the charter or law under which it was formed. Sparta v. Lebanon, etc., Turnpike Co., 6 Humph, 241; Jay Bridge Corporation v. Woodman, 31 Me. 573; New Bedford, etc., Co. v. Adams, 8 Mass. 138.

[2] Klein v. Alton, etc., R. Co., 13 Ill. 514; Merrimac, etc., Co. v. Bagley, 14 Mich. 501. The remedy provided by the charter, of forfeiture of stock, is

pass a by-law providing for forfeiture of the stock, or the amount paid by a subscriber thereon, in case of a failure to pay the full amount subscribed, is conferred by the organic law of the corporation, such by-law would be of no effect.[1] If the language of the charter or organic law of the corporation provides that the company may sue, or declare the shares, or the sum paid thereon, forfeited, the corporation may adopt either remedy, but cannot adopt one and then resort to the other. And if there has been a strict forfeiture without a sale of the shares, when such course is authorized by the fundamental law of the corporation, courts of equity will not interfere by granting relief against such forfeiture.[2]

But the general rule seems to be that the obligation of actual payment is created by subscription to the capital stock, unless the

only cumulative, and the company may elect to sue at law for the subscription dues. Freeman v. Winchester, 18 Miss. 577; Ogdensburgh, etc., R. Co. v. Frost, 21 Barb. 541; Herkimer, etc., Co. v. Small, 21 Wend. 273; Troy, etc., Co. v. McChesney, id. 296. But see Small v. Herkimer Manuf. Co., 2 N. Y. 380. The option of forfeiture is with the company. Railroad Co. v. Rodrigues, 10 Rich. (S. C.) 278; Spear v. Crawford, 14 Wend. 20; Sagory v. Dubois, 3 Sandf. Ch. 466; Tar Riv. Nav. Co. v. Neal, 3 Hawks. 520; Dutchess Cotton Mill Manuf. Co. v. Davis, 14 Johns. 238; Beene v. Cahawba, etc., R. Co., 3 Ala. 660; Gratz v. Redd, 4 B. Monr. 178; London, etc., R. Co. v. Graham, 1 A. & E. 270; Bristol, etc., R. Co. v. Locke, id. 25; Gray v. Turnpike Co., 4 Rand. (Va.) 578.

In England, under a statute which authorizes the company to sue for unpaid calls, and also authorizes the company to forfeit stock on which calls are unpaid, whether they have sued or not, the remedies are not alternative, and after commencing a suit the company may declare a forfeiture and also prosecute the action until the claim is satisfied. Great Northern Railw. Co. v. Kennedy, 4 Exch. 417. The rule is otherwise where the two powers are expressed in the alternative. Exch. 1848, Giles v. Hutt, 3 Exch. 18. By the private act of the company, power was given to cancel any forfeited shares where the market was not sufficient to realize a sum equal to the arrears of the calls, and to issue so many new shares, and of such nominal amount as they might think fit, provided the capital to be represented by such new shares should not in the whole exceed the capital represented by the unpaid portion of the shares which should be so canceled. It was held, that the remedy given by this latter provision was cumulative, and that an action for calls was maintainable, notwithstanding that the shares had been forfeited and canceled; and that it was no answer to the action, to say that new shares had been issued and sold in lieu of the canceled shares, which realized a sum greater than the unpaid portion of the canceled shares; but that the original shareholders would be entitled to the benefit of payments made in respect of the new shares. Inglis v. Great Northern Railway Co., 16 Jur. 895.

[1] Small v. Herkimer Manuf. Co., 2 N. Y. 330; Matter of Long Island R. Co., 19 Wend. 37.

[2] Story's Eq. Jur., § 1325. See, also, Sparks v. Proprietors, etc., 13 Ves. 433; Pendergast v. Turton, 1 Y. & C. 98.

contrary is plainly expressed by the conditions of the subscriptions, and that the right of forfeiture and sale of shares, on the failure of payment of subscriptions, is not an exclusive but a cumulative remedy, unless otherwise provided by the terms of the subscription or the provisions of the constating instruments.[1] But in some cases it has been held that the corporation must elect which remedy it will pursue, and that when it has a choice of remedies, it cannot pursue both; and that where there is a right of forfeiture, but no express power to use both remedies, the election of the right of forfeiture precludes the right of ordinary action. Thus, under a charter containing such provisions, where an action was

[1] See Glass Co. v. Alexander, 2 N.H. 380; White Mountains R. Co. v. Eastman, 34 id. 147; Spear v. Crawford, 14 Wend. 20; Troy Turnpike Co. v. McChesney, 21 id. 296; Mann v. Currie, 2 Barb. 294; Northern R. Co. v. Miller, 10 id. 260; Troy, etc., R. Co. v. Kerr, 17 id. 581; Troy, etc., R. Co. v. Tibbits, 18 id. 297; Ogdensburgh, etc., R. Co. v. Frost, 21 id. 541; Goshen T. Co. v. Hurtin, 9 Johns. 217; Dutchess Cotton M. Co. v. Davis, 14 id. 238; Harlem Canal Co. v. Seixas, 2 Hill, 504; Delaware Canal Co. v. Sansom, 1 Binn. 70; Tar Riv. Nav. Co. v. Neal, 3 Hawks, 520; Greenville, etc., R. Co. v. Smith, 6 Rich. 91; Charlotte, etc., R. Co. v. Blakely, 3 Strobh. 245; Selma, etc., R. Co. v. Tipton, 5 Ala. 787; Gayle v. Cahawba, etc., R. Co., 8 id. 586; Freeman v. Winchester, 10 S. & M. 577; Elysville Co. v. Okisko, 1 Md. Ch. 392; Gratz v. Redd, 4 B. Monr. 178; Barnet v. Alton, etc., R. Co., 13 Ill. 504; Klein v. Alton, etc., R. Co., id. 514; Ryder v. Same, 13 id. 516; Peoria, etc., R. Co. v. Etting, 17 id. 429; Essex Bridge Co. v. Tuttle, 2 Vt. 393; City Hotel Co. v. Dickinson, 6 Gray, 586; Lexington, etc., R. Co. v. Chandler, 13 Metc. 311; Hart, etc., R. Co. v. Kennedy, 12 Conn. 499; Ward v. Griswoldville M. Co., 16 id. 593; Mann v. Cooke, 20 id. 178. On this subject Mr. Redfield observes: "But where the stock of the company is defined in its charter, and is divided into shares of a definite amount in money, a subscription for shares is justly regarded as equivalent to a promise to pay calls, as they shall be legally made to the amount of the shares. This may now be regarded as settled, both in this country and in England, and that the power given the company to forfeit and sell the shares, in cases where the shareholders fail to pay calls, is not an exclusive, but a cumulative remedy, unless the charter or general laws of the state provide that no other remedy shall be resorted to by the company." 1 Redf. on Rail., § 49. See, also, Hartford & N. H. R. Co. v. Kennedy, 12 Conn. 499; Mann v. Cooke, 20 id. 178; Dayton v. Borst, 31 N. Y. 435; Piscataqua Ferry Co. v. Jones, 39 N. H. 491; Goshen Turnp. Co. v. Hurten, 9 Johns. 217; Dutchess Man. Co. v. Davis, 14 id. 238; Troy Turnp. Co. v. McChesney, 21 Wend. 296; Northern R. Co. v. Miller, 10 Barb. 260; Plankroad v. Payne, 17 id. 567; Troy & Bost. R. Co. v. Tibbits, 18 id. 297; Ogdensburgh R. Co v. Frost, 21 id. 541; Herkimer M. & H. Co. v. Small, 21 Wend. 273; S. C., 2 Hill, 127; Sagory v. Dubois, 3 Sandf. Ch. 466; Mann v. Currie, 2 Barb. 294; Ward v. Griswold Manuf. Co., 16 Conn. 593; Lexington & W. C. R. Co. v. Chandler, 13 Metc. 311; Klein v. Alton, etc., R. Co., 13 Ill. 514; Palmer v. Lawrence, 3 Sandf. 161; Greenville, etc., R. Co. v. Smith, 6 Rich. 91; Freeman v. Winchester, 10 S. & M. 577; Selma R. v. Tipton, 5 Ala. 787; Troy, etc., R. Co. v. Kerr, 17 Barb. 581.

But if the stockholder is only made liable after a sale of stock, the statute must be pursued, and he would only be liable for a deficiency after the sale. Grays v. Turnp. Co., 4 Rand. 578; Essex Bridge Co. v. Tuttle, 2 Vt. 393. See, also, Rensselaer & W. Plank R. Co. v. Barton, 16 N. Y. 457.

commenced against a subscriber, to recover certain installments, and the stock was afterward forfeited for the non-payment of a subsequent and last call, a plea of such forfeiture in bar of the further prosecution of the action was sustained.[1]

SEC. 86. **Assessments; rules in relation to.** — Assessments, in connection with corporate stocks, is understood to mean a rating by the members or the board of directors of a corporation, by installments, of which notice is usually required to be given; and after such assessment and the requisite notice is given, and the period for payment has passed, then an action will lie for the amount of

[1] Small v. Herkimer Manufg. Co., 2 N. Y. 330; overruling Herkimer Manufg. Co. v. Small, 21 Wend. 273, and 2 Hill, 177. See, also, Kennebec & Port. R. Co. v. Kendall, 31 Me. 470; Allen v. Montgomery R. Co., 11 Ala. 437. If in such cases the company fail to exercise their power of forfeiture, as the successive defaults occur, until all the defaults for payment of calls occur, it loses its remedy by sale. Stokes v. Lebanon, etc., R. Co., 6 Humph. 241; Harlem Can. Co. v. Seixas, 2 Hall, 504; Delaware Canal Co. v. Sansom, 1 Binn. 70. A power conferred by the legislature on a corporation to sell the stock of a subscriber for default of payment of an installment by him does not exclude the common-law remedy to recover the amount; but he is still liable in an action of *assumpsit* on his promise by the subscription. The penalty of forfeiture is cumulative; and the company may waive it, and proceed *in personam* on the promise. London Grand Junction R. W. Co. v. Graham, 1 Q. B. 271; Birmingham, Bristol & Thames R. W. Co. v. Locke, 1 Q. B. 256; Highland Turnpike Co. v. McKean, 11 Johns. 109; 1817, Dutchess Cotton Mfg. Co. v. Davis, 14 id. 238; 1835, Spear v. Crawford, 14 Wend. 20; 1839, Troy Turnpike & R. R. Co. v. McChesney, 21 id. 296; Sagory v. Dubois, 3 Sandf. Ch. 466; Harlem Canal Co. v. Seixas, 2 Hall, 504; Stokes v. Lebanon & Sparta Turnpike Co., 6 Humph. 241; Eastern Plankroad Co. v. Vaughan, 20 Barb. 155; Klein v. Alton & Sangamon R. R. Co., 13 Ill. 514; Hartford & New Haven R. R. Co. v. Kennedy, 12 Conn. 499; Instone v. Bridge Co., 2 Bibb. 577; Grays v. Turnpike Co., 4 Rand. 578; Rockville & Washington Turnpike Road v. Maxwell, 2 Cranch's C. C. 451. In this respect there is nothing to distinguish the case of an assignee from that of an original stockholder. See Mann v. Currie, 2 Barb. 294. The rule is the same, although the subscription promise upon pain of forfeiture, etc. The company may sue as upon an absolute promise. Troy Turnpike & R. R. Co. v. McChesney, 21 Wend. 296. That the forfeiture can only be enforced on a full compliance with the provisions of the act, see Eastern Plankroad Co. v. Vaughan, 20 Barb. 155. Where the statute was, that "the directors may order the treasurer to sell," they cannot delegate the power of ordering sales to a committee, and an order to the treasurer must be absolute and not in the alternative. See York & Cumberland R. R. Co. v. Ritchie, 40 Me. 425; Small v. Herkimer Mfg. Co., 2 N. Y. 330; Troy & Rutland R. R. Co. v. Kerr, 17 Barb. 581; Troy & Boston R. R. Co. v. Tibbits, 18 id. 297; 1856, Ogdensburgh, Rome and Clayton R. R. Co. v. Frost, 21 id. 541; Mann v. Cooke, 20 Conn. 178; City Hotel v. Dickinson, 6 Gray, 586; 1803, Delaware & Schuylkill Canal Co. v. Sansom, 1 Binn. 70; Tar River Navigation Co. v. Neal, 3 Hawks, 520; Beene v. Cahawba, etc., R. R. Co., 3 Ala. 660; Gratz v. Redd, 4 B. Monr. 178; Peoria & Oquawka R. R. Co. v. Elting, 17 Ill. 429; 1860, Raymond v. Caton, 24 id. 123; Hightower v. Thornton, 8 Ga. 486.

the subscription due.[1] Where the charter of a railroad corporation contained a provision that the capital stock should be of not less than a certain number of shares, it was held that assessments laid before the requisite number of shares had been subscribed were invalid.[2] This was in the absence, of course, of any provision authorizing assessments where a less amount was subscribed.

Sec. 87. **Power to lay cannot be delegated.** — If the power to lay assessments is vested exclusively in the corporation, it cannot be delegated to the directors;[3] but if authority is given to a corporation, by an act of the legislature, to raise a fund in addition to their capital stock by assessment on the stockholders, the corporation may confer the power on the directors to lay assessments for this purpose.[4]

And where the articles of incorporation of a railway company restricted the installments of stock that might be called for in any one year, by the board of directors, to twenty-five per centum of the whole amount, and also provided for a change in the articles by the votes of the directors, and a change was so made in compliance with the general statutes on that subject, by which the directors were authorized to assess five per centum per month, it was held that such change was binding upon the stockholders who subscribed previous to such alteration.[5]

In this case the supreme court of Iowa say: "The charter of the company, plaintiff in this case, provides that the articles of incorporation are formed and adopted under and in pursuance of the forty-third chapter of the Code of Iowa (1851), which provides for changes in the charter, which when recorded and published, as the original articles are required to be, are valid. In view of this provision of the law and the articles of the charter, which authorizes changes to be made by the board of directors, or by the stockholders, we do not think the defendant can, with

[1] Spangler v. Indiana, etc., R. Co., 21 Ill. 276.

[2] Oldtown, etc., R. Co. v. Veazie, 39 Me 571.

[3] *Ex parte* Winsor, 3 Story, 411.

[4] Marlborough Manuf. Co. v. Smith, 2 Conn. 579; Middletown, etc., Turnp. Co. v. Watson, 1 Rawle, 330.

[5] Burlington, etc., R. Co. v. White, 5 Iowa, 409; South Bay, etc., Co. v. Gray 30 Me. 547. But see, when the charter is amended after subscription, but before completing the organization reducing the number of shares required to be taken before organization, Oldtown, etc., R. Co. v. Veazie, 39 Me. 571.

justice, allege that his liability has been increased or changed without his consent. He consented to the change being made, and authorized the company to call for payment of his subscription stock, at the rate of five per centum per month, by becoming a member of the corporation." [1]

SEC. 88. **Statutory power must be followed.** — Under a statute which authorized the directors of a company to require "payment from subscribers to the capital stock, of the sums subscribed by them, at such times and in such proportions and on such conditions as they shall see fit," it was held that the directors were invested with full discretionary power as to time and manner of payment, and that they might require the whole subscription to be paid at one time or in installments.[2] But a general resolution of a railroad company forfeiting stock for non-payment of installments, must declare to the stockholder that they claim to forfeit his specific stock, or it will not be valid.[3] And where the capital stock is to be paid at such times and in such proportions as required by the president and directors, though the shareholders will be liable to third persons for their subscriptions whether called in or not, yet the call being an uncertain event forms a condition which, as between the subscribers and the corporation, suspends the obligation to pay until called in.[4]

SEC. 89. **Several assessments may be laid at one time, when.** — Where the terms of the subscription required that assessments should not exceed five dollars on each share at any one time, it was held that, if no greater sum was payable at one time, several assessments might be voted at one time, and that the records of the corporation are competent evidence to show who were the corporators, and number of shares that had been taken at the time of the one assessment, unless some proof be introduced to destroy their effect.[5] So, where an act of incorporation

[1] See same doctrine in Mowrey v. Indianapolis, etc., R. Co., 4 Biss. 78.

[2] Haun v. Mulberry, etc., R. Co., 33 Ind. 103.

[3] Johnson v. Albany, etc., R. Co., 40 How. Pr. 193.

[4] Purton v. N. O., etc., R. Co., 3 La. Ann. 19.

[5] Penobscot, etc., R. Co. v. Dummer, 40 Me. 172. But a contrary doctrine seems to be held in Spangler v. Indiana, etc., R. Co., 21 Ill. 276.

provided that the members might divide the capital stock into as many shares as they might think proper, and by a written agreement, they fixed the capital stock at $50,000, and divided it into five hundred shares of $100 each, but only one hundred and thirty-eight shares were taken, it was held that no assessment for the general purposes of the corporation could be legally made until all the shares were taken.[1] And if the proper officers of an insolvent corporation have neglected to call in unpaid subscriptions due to the company from solvent stockholders, in a proper proceeding in chancery by a judgment creditor of such company against the company and such stockholders, the court may decree payment by such stockholders to such judgment creditor, to the extent of such amounts of subscription as remain unpaid.[2]

Where the charter of a railroad company provided that, if any stockholder should omit for the space of six months to pay any installments on his shares which might be called for, the managers of the company might declare such shares forfeited; and the defendant paid two installments on his shares when called for, after which the company made a general assignment for the benefit of its creditors, and a call for a third installment was made at the proper time by the managers without the approval or disapproval of the assignee, it was held that the managers had the authority to declare the defendant's shares forfeited for the nonpayment.[3]

Sec. 90. **Notice of assessments or calls.** — Notice of the assessment or call is usually provided for by the act, or articles of association, or the by-laws of the corporation, to be given personally or by publication to delinquent subscribers before proceedings can be taken to recover the same by suit at law, or by forfeiture of shares or sums paid on them. The mode and manner of proceeding and the length of notice is generally thus provided for, and of which provisions the stockholders would be bound to take notice.

But, whatever be the requirement of the corporation in this

[1] Littleton Manuf. Co. v. Parker, 14 N. H. 543; Contoocook, etc., R. Co. v. Barker, 32 id. 363.

[2] Bassett v. St. Albans, etc., R. Co., 47 Vt. 313.

[3] Germantown, etc., R. Co. v. Fitler, 60 Penn. St. 124.

respect, it should be strictly followed in order to entitle it to the remedies provided in case of the neglect or default of the subscriber to attend to the call, and make the payment required; and especially when there is authority in the company to forfeit the shares.[1] But a judgment for an installment on a subscription was sustained, where it did not appear that the defendant had any notice of a call for the same, as it did not appear that the charter required notice to be given.[2]

SEC. 91. **Sufficiency of.** — The notice, when required, in case of authority to sell by virtue of a power in the company for that purpose, should express the time and place of sale, and should be reasonably sufficient in the absence of provisions as to the length of notice, for the purposes for which it is required or intended. Thus, it was held in Massachusetts, that a notice that shares in a railroad company would be sold for non-payment of assessments on a day fixed, and by an auctioneer named, who was and long had been an auctioneer in the place at which the notice bore date, was held to be insufficient, as it did not express the place of sale; and three days' notice of the time and place of sale was held to be unreasonably short, and, therefore, insufficient, where the owner resided at a distance.[3]

Where a by-law of a corporation provided for a notice to be given of sales of shares for non-payment of assessments, by advertisement, designating the time and place thereof and the shares to be sold, it was held that any description sufficing to show clearly

[1] Cornwall G. C. M. Co. v. Bennett, 5 H. & N. 423; Anglo-California G. M. Co. v. Lewis, 6 id. 174.

[2] Wilson v. Wills Valley R. Co., 33 Ga. 466. If installments are regularly assessed in accordance with the terms provided in the subscription, no notice of the assessment, or of time and place of payment of the same, is required. See Lake Ontario R. Co. v. Mason, 16 N. Y. 451; Smith v. Indiana, etc., R. Co., 12 Ind. 61; Eakright v. Logansport, etc., R. Co., 13 id. 404; New Albany R. Co. v. McCormick, 10 id. 499; Breedlove v. Martinsville R. Co., 12 id. 114; Eppes v. Mississippi, etc., R. Co., 35 Ala. 33; Smith v. Plankroad Co., 30 id. 650. The manner prescribed for giving notice has been, in some cases, considered as directory only; and it has been held that notice may be given in a different manner, if the subscriber can sustain no injury thereby; as for instance, a personal notice to the subscriber, where one by publication is prescribed. See Lexington R Co. v. Chandler, 13 Metc. 311; Mississippi R. Co. v. Gaster, 20 Ark. 455. But see Lewey's Island R. Co. v. Bolton, 48 Me. 451; Rutland R. Co. v. Thrall, 35 Vt. 547. Where the fundamental law prescribes a certain length of notice before suit can be brought, such notice must be given. Id.

[3] Lexington R. Co. v. Staples, 5 Gray, 520.

what shares were intended to be subject of sale was sufficient;[1] and where a charter provided that for non-payment of assessments "the directors may order the treasurer to sell such shares at auction, * * * and the delinquent subscriber shall be held accountable for the balance, if the shares sell for less than the assessments," and the directors voted that the president and treasurer be a committee to collect arrearages, and enforce such collections by sales or otherwise, it was held that a sale under this vote was void; that the directors could not delegate the power of ordinary sales to a committee; and that the order to the treasurer must be absolute and not in the alternative.[2]

And when the charter authorizing a sale of the stock of delinquent subscribers required notice of the assessment to be given thirty days before the order of the directors for the sale of the shares, and that the treasurer should give to the subscriber the notice in hand, signed by the treasurer, or by a director, on his behalf, it was held that a notice of the assessment thirty days before the sale, or a notice to the subscriber in hand not signed by the treasurer or a director, was insufficient.[3]

But, when an act of incorporation requires that the place of payments of stock shall be designated in the notice requiring payment, a notice requiring payment to be made to a certain person residing in a certain city is *prima facie* a compliance with the statute.[4] And notice to pay installments of a subscription to the treasurer of a company implies that it should be made to him at his office, and is sufficient designation of the place of payment.[5]

Sec. 92. **Rights of stockholders to dividends.** — It will be manifest that the stockholder must have various rights growing out of the

[1] York, etc., R. Co. v. Pratt, 40 Me. 447.

[2] York, etc., R. Co. v. Ritchie, 40 Me. 425.

"The proceedings in making the calls must have been substantially in conformity with the charter and by-laws of the company and the general laws of the state at the time of making the same. Any subsequent ratification by the directors, of an informal call, will only give it effect from the date of the ratification." 1 Redf. on Rail., § 49, par. 8. See, also, id., § 49, par. 10, 11.

[3] Id.; Lewey's, etc., R. Co. v. Bolton, 48 Me. 451.

[4] Troy, etc., R. Co. v. McChesney, 21 Wend. 296.

[5] Muskingum, etc., Co. v. Ward, 13 Ohio, 120.

relation which he sustains to the corporation, which we will consider in this connection. The most important of these, and usually the sole object of the relation, is the right to share in the profits of the association in the proportion which the stock he owns bears to the whole capital stock used in the enterprise for which the corporation was organized.

Among the regulations which may be made by the corporators is that relating to dividends on the shares of capital stock invested and held by the stockholders. Dividends are usually declared by the proper officers of the corporation periodically, as required by its by-laws; and thereupon the holders of the shares become entitled to the amount so declared as their share of the profits.[1]

But the stockholders have no claim to a dividend until it is declared. Until that time the profits belong to the corporation precisely the same as any other property which the corporation may own.[2] And when the dividend is declared and distribution ordered of the profit fund, whether in whole or in part, it should be distributed between those who at the time were owners of the stock, and in proportion to the shares owned by them.[3] The company is bound to pay the dividends which may be declared to the true owners only;[4] and these are usually determined by an inspection of the proper books of the company.[5] But if the dividend is payable at a future day, a sale of the stock carries with it, to the assignee, the right to the dividends.[6] If a dividend has

[1] The directors of a corporation have authority to declare dividends and to fix the time and place of payment, with such limitations as reason and good faith may require. King v. Paterson, etc., R. Co., 29 N. J. L. 82. But the acceptance of a dividend by a stockholder is no ratification of illegal conduct of directors in relation thereto. Hilles v. Parish, 14 N. J. Eq. 380. A corporation is liable to one of its stockholders to whom it fails to distribute his proper quota of a dividend which has been declared. Jackson v. Newark, etc., Plank R. Co., 31 N. J. L. 277.

[2] If the corporation uses its surplus to buy up some of its own stock, the stockholders have no right to claim this *pro rata*, until it is ordered to be divided among them. Coleman v. Columbia Oil Co., 51 Penn. St. 74; Wiltbank's Appeal, 64 id. 256; St. John v. Erie R. Co., 10 Blatchf. 271; Bradley v. Holdsworth, 3 M. & W. 422.

[3] Goodwin v. Hardy, 57 Me. 143; March v. Eastern R. Co., 43 N. H. 515; Gifford v. Thompson, 115 Mass. 478. The unpaid dividends are assets and liable for the debts of the company. Curry v. Woodward, 44 Ala. 305; Hill v. Newichawanick Co., 48 How. Pr. 427; Coleman v. Columbia, etc., R. Co., 51 Penn. St. 74.

[4] Southwestern, etc., R.Co. v. Thomason, 40 Ga. 408.

[5] Jones v. Terre Haute, etc., R. Co., 17 How. Pr. 529; compare, Currie v. White, 37 id. 330; 6 Abb. Pr. (N. S.) 352; Bank of Utica v. Smalley, 2 Cow. 770.

[6] Burrough v. North Carolina R. R. Co., 67 N. C. 376.

been declared, when in fact there is no money earned with which to pay it, a stockholder may maintain an action to enjoin its payment.[1]

It has been held that dividends are to be considered paid to the stockholders, when they have received credit on their stock notes in the possession of the company.[2] And a declaration of a dividend by a corporation on a part of its capital stock raises a presumption that the same is declared on all, and it has been held that this presumption was sufficient basis for a tax, and that for the purposes of taxation it might be assumed that the same dividend had been declared on all the stock.[3] But a shareholder has no legal right to the profits of his shares until a division is made, and a contract by him in reference to dividends and profits upon his stock includes only dividends or profits ascertained and declared by the company and allotted to him, and not profits to be ascertained by third persons or courts of justice, upon investigation of the accounts and transactions of the company.[4] When, however, a dividend has been declared, the amount accruing upon the stock of each stockholder is treated as his own property, and the directors have no power to apply it to any purpose not included in their charter, without the consent of such stockholder.[5]

SEC. 93. **Right of purchaser as to dividends.** The general rule is, that the purchaser of stock has a right to receive all dividends subsequently declared without reference to the time they were

[1] Carpenter v. N. Y., etc., R. R. Co., 5 Abb. Pr. (N. S.) 277.

[2] Citizens, etc., Ins. Co. v. Lott, 45 Ala. 185.

[3] Atlantic, etc., Tel. Co. v. Commonwealth, 3 Brewst. (Penn) 366. See, also, as to the proper basis of taxation of stock, Boston, etc., R. Co. v. Commonwealth, 100 Mass. 399.

[4] Goodwin v. Hardy, 57 Me. 143; Minot v. Paine, 99 Mass. 101; Curry v. Woodward, 44 Ala. 305; Phelps v. Farmers' Bank, 26 Conn. 269; Hyatt v. Allen, 56 N. Y. 553. See, also, Spear v. Hart, 3 Robt. (N. Y.) 420. As to the right of stockholders to dividends; their amount, how payable; and the remedy against the corporation for its refusal to pay them. See Bates v. Androscoggin, etc., R. Co., 49 Me. 491; State v. Baltimore, etc., R. Co., 6 Gill, 363; Bank of Commerce v. Dalrymple, 16 Md. 17; Moss' Appeal, 43 Penn. St. 23.

[5] March v. Eastern R. R. Co., 43 N. H. 515. Where a dividend was declared, and the amount deposited with bankers expressly to pay it, but before it was paid upon all the stock, the money was withdrawn, and the corporation became insolvent, it was held that the stockholders were equitably entitled to the money. Matter of Le Blane, 4 Abb. N. C. (N. Y.) 221.

earned.[1] And dividends divisible among the shareholders must be considered as their property, and cannot be applied by the directors to any purpose not provided for by the act or articles of incorporation, without the consent of the shareholders.[2]

And if one sells stock to another, and is unable to have the transfer registered in consequence of a failure of the corporation, and he, therefore, remains the registered owner, he is entitled to recover of the vendee any assessments he may have been obliged to pay on the stock after the assignment.[3]

In relation to dividends it has been affirmed that they are payable out of profits, and that it is not necessary that all outstanding liabilities should be paid off before they are declared and paid to the respective shareholders.[4] But this proposition should at least be given with this qualification, viz.: that the corporation is solvent. For, according to principles of justice in such cases, if the corporation is insolvent, the creditors would have an undoubted right to insist that the profits should first be applied to the satisfaction of their claims.[5] And it has been held that the directors may retain the profits and invest the same in improvements; and, in lieu of the dividends which the stockholders would otherwise be entitled to, issue shares of stock, where the law or the constating instrument authorized them to increase the capital stock for any purpose. And such action, it has been held, would afford no ground for an injunction to restrain them.[6]

[1] March v. Eastern R. Co., 43 N. H. 515; Foote's Case, 22 Pick. 299; Granger v. Bassett, 98 Mass. 462; Goodwin v. Hardy, 57 Me. 143; Gifford v. Thompson, 115 Mass. 478.

[2] March v. Eastern R. Co., *supra*.

[3] Grissell v. Bristowe, L. R., 3 C. P. 112; Coles v. Bristowe, L. R., 6 Eq. 149; L. R., 4 Ch. 3; Hodgkinson v. Kelly, L. R., 6 Eq. 496; Hawkins v. Maltby, id. 505; Cruse v. Paine, id. 641; Castellan v. Hobson, L. R., 10 Eq. 47; Bowering v. Shepherd, L. R., 6 Q. B. 309; Shepherd v. Gillespie, L. R., 3 Ch. 764.

[4] Green's Brice's Ultra Vires, 130.

[5] Scott v. Eagle Ins. Co., 7 Paige, 198; Karnes v. Rochester, etc., R. Co., 4 Abb. Pr. (N. S.) 107. In St. John v. Erie R. R. Co., 10 Blatchf. (U. S. C. C.) 271, where a certificate of stock declared that it should be entitled to preferred dividends out of the net earnings, not to exceed a specified note after payment of mortgage interest in full, and after the certificate was issued the corporation borrowed money and issued bonds therefor, with interest, and also took a lease of connecting roads on rent, it was held that the certificate was not entitled to be paid a dividend until after the interest on such bonds and the rent under such leases had been paid. See, also, Thompson v. Erie R. R. Co., 42 How. Pr. (N. Y.) 68.

[6] Howell v. Chicago & N. W. R. Co., 51 Barb. 378; Atkins v. Albree, 12 Allen, 359; Minot v. Paine, 99 Mass. 101; Boston, etc., R. Co. v. Commonwealth, 100 id. 399; Daland v. Williams, 101 id. 571; Leland v. Hayden,

In a case heard in the United States Circuit Court,[1] the court say: "Net earnings are properly the gross receipts, less the expenses of operating the road, or other business of the corporation. Interest on debts is paid out of what thus remains, that is, out of the net earnings. Many other liabilities are paid out of the net earnings. When all liabilities are paid, either out of the gross receipts or out of the net earnings, the remainder is the profit of the shareholders, to go toward dividends, which, in that way, are paid out of the net earnings."[2]

A recent case in the court of appeals in New York will serve to illustrate the legal rights in such cases. A stockholder brought a suit against a corporation, to compel it to declare a dividend. The facts were as follows: The corporation had on hand, on deposit and securities, $36,000. Its floating debt was $1,000, and the funded debt payable in seventeen years at six per centum was $75,000. The yearly current expenses, including interest on the funded debt, was about $10,000, and the corporation had no immediate need of the surplus on hand, or of its earnings, except to pay the current expenses. The court observed: "The property of every corporation, including all its earnings and profits, belongs, primarily, to such corporation, exclusively, and not to its stockholders, individually or collectively. They have a certain claim, it is true, but their claims are always subordinate to the claims of creditors, and the latter approach much nearer to the condition of ownership than the former. No stockholder can entitle himself to any dividend, or to any portion of the capital stock, until all debts are paid. The funds on hand, which the plaintiff asks to have divided and distributed among the stockholders, are only about half sufficient to pay the indebtedness of the defendant. It is of no sort of consequence, in a legal point of view, that the debt is not yet due, and has a number of years to run before it

102 id. 542; Rand v. Hubbell, 115 id. 461; Gifford v. Thompson, id. 478; Earp's Appeal, 28 Penn. St. 368; Wiltbank's Appeal, 64 id. 256. A dividend is a debt that is payable only in legal tender currency. Ehle v. Chittenango Bank, 24 N. Y. 548. But see Scott v. Central, etc., R. Co., 52 Barb. 45.

[1] St. John v. Erie R. R. Co., 10 Blatchf. 271; affirmed in the supreme court of the United States, in 22 Wall. 146.

[2] See, also, opinion of BRONSON, J., in People v. Supervisors, 4 Hill, 20; S. C. on appeal, 7 id. 504.

matures. The creditors still have the better right to the funds, which the defendant holds for them in trust. The court cannot undertake to say, judicially, that the future business of the corporation will be prosperous, nor has it any right to postpone the rights and claims of creditors to future earnings and accumulations, even if it could be certain they would accrue. The board of directors, in their discretion and in view of all the facts within their knowledge, might do this, but no court, I apprehend, would ever undertake to deal in such a manner with the funds of the corporation which was indebted to an amount at least double the fund sought to be distributed. * * * The corporation does not stand in any fiduciary relation to its stockholders. * * * The stockholders are in no sense creditors of the corporation, nor are they in the situation of partners. They are constituent parts of the corporate body. In a general sense, a corporation may be regarded as the trustees of its creditors, but not of its stockholders. The action has, therefore, no foundation of a trust to support it." [1]

SEC. 94. **Effect of declaring dividends.**— When a dividend is declared, it becomes a debt due from the corporation to the individual stockholder, and if the corporation deposit the money with a bank for the benefit of the stockholder, it does not thereby release itself from liability to the stockholder, in case of a failure of the banking company to pay the same.[2] A stockholder, in a moneyed corporation, has a perfect ownership over his stock, and may, as we have seen, sell and transfer the same to whom it pleases, and the corporation has no right to restrain him in so doing. Such stock entitles the owner to his proportion of the dividends, which may be from time to time declared;[3] and a devise of the dividends, without qualification, has been held to carry with it the stocks themselves.[4]

[1] Karnes v. Rochester, etc., R. Co., 4 Abb. Pr. (N. S.) 107; Utica v. Churchill, 33 N. Y. 238. See. also, People v. Commissioners, 35 id. 423; S. C., 4 Wall. 244; Waterman v. Troy, etc., R. Co., 8 Gray, 433· Cunningham v. Vermont, etc., R. Co., 12 id. 411; McLaughlin v. Detroit, etc., R. Co., 8 Mich. 100; City of Ohio v. Cleveland, etc., R. Co., 6 Ohio St. 489.

[2] King v. Paterson R. Co., 5 Dutch. 82, 504.

[3] Brightwell v. Mallory, 10 Yerg. 196; State v. Franklin Bank, 10 Ohio, 90. But a stockholder must prove a demand before he can maintain an action for a dividend. Scott v. Central, etc., R. Co., 52 Barb. 45.

[4] Collier v. Collier, 3 Ohio St. 374.

But an agreement by a corporation to pay annual dividends to preferred stockholders, without reference to its ability to pay them from its earnings, is opposed to public policy and void.[1]

Sec. 95. **A stockholder may sue for his dividends.**— When a dividend is declared payable at a certain time it thereupon becomes the individual property of the stockholder, and he is entitled to receive the same upon or after the day fixed for payment on demand of the proper agent. In such a case the dividend is considered as a severance of so much as belongs to each stockholder from the common fund of the corporation, and is thereafter held in trust by the company for them, and cannot be appropriated to other purposes. It is a debt due from the time it is set apart to the stockholder, and if not paid on demand he may maintain an action therefor.[2] And where the money is subsequently withdrawn by the directors and the corporation becomes insolvent the stockholders have an equitable lien upon the fund to the extent of their unpaid share of the dividend, and such lien follows the fund into the hands of the receiver, and will be enforced by a court of equity.[3]

Sec. 96. **Income on stock in trust.** — If shares of a capital stock of a corporation are held as a fund in trust to pay the income to a person until his death, and then convey the capital to another, the regular dividends declared and paid would of course constitute income to which the trustee, for the benefit of the *cestui que trust*, would be entitled, and also any dividends on shares of additional stock distributed as part of the net earnings of the corporation. But he would not be authorized to treat the additional stock itself as income, for the benefit of his *cestui que trust*.[4] A

[1] Lockhart v. Van Alstyne, 31 Mich. 76. See, also, St. John v. Erie R. Co., 10 Blatchf. 271.

[2] Kane v. Bloodgood, 7 Johns. Ch. 90; Carpenter v. New York, etc., R. Co., 5 Abb. Pr. 277; Jones v. Terre Haute, etc., R. Co., 57 N. Y. 196; Howell v. Chicago, etc., R. Co., 51 Barb. 378; Granger v. Bassett, 98 Mass. 462; Stoddard v. Shetucket, etc., Co., 34 Conn. 542; King v. Paterson, etc., R. Co., 29 N. J. L. 82; Jackson v. Plank R. Co., 31 N. J. L. 277; Philadelphia, etc., R. Co. v. Cowell, 28 Penn. St. 329; Marine Bank v. Biays, 4 H. & J. 338; State v. Baltimore, etc., R. Co., 6 Gill, 363; City of Ohio v. Cleveland, etc., R. Co., 6 Ohio St. 489; Le Roy v. Globe Ins. Co., 2 Edw. Ch. 657.

[3] Matter of Le Blanc, 4 Abb. N. C. (N. Y.) 221.

[4] Minot v. Paine, 99 Mass. 101.

fund bequeathed in trust to pay the income to one until his death, and then the capital to another, included shares in the stock of a railroad corporation. This corporation, out of its net earnings accumulated during the term of the trust, bought in the market part of its own stock, invested other earnings to an amount equal to twenty per centum of the par value of the residue of its stock in property, a large portion of which was not required for the use and improvement of the railroad, and voted to create a number of new shares of the same par value, to be issued and disposed of as the directors should deem proper. The directors then voted to offer to the individual stockholders the right to take part of the new stock at par, in the proportion of twenty per cent of new shares for each old share held by the taker, and that if any individual stockholder should not avail himself of his right in this respect, they would dispose of it as they might see fit; and at the same time they declared a dividend of forty per centum on the old shares held by the individual stockholders, payable, "twenty per cent in the shares of the company which were purchased and held by this corporation in its corporate capacity, and twenty per cent in cash, derivable from the shares which the stockholders entitled to this dividend shall respectively pay for the new stock taken by them, under the terms of the preceding vote." On these facts the question presented to the court was, what part of the avails of the stock was income to which the tenant for life was entitled, and what part, if any, belonged to the trust fund. The court held, that of the avails of the dividend to the trustee, so much as was derived from the first twenty per cent was payable as income to the life tenant, and so much as was derived from the second twenty per cent accrued to the capital of the trust fund.[1]

SEC. 97. **Money in hands of directors.** — Money in the hands of the directors may be income to the corporation, but it cannot be considered income to the subscribers until a dividend is made. Thus, where the company invests in machinery, or in railroad tracks, depots, rolling stock, or any other permanent improvement for enlarging or carrying on their legitimate business, it does not

[1] Leland v. Hayden, 102 Mass. 542 (1869). See, also, Wiltbank's Appeal, 64 Penn. St. 256.

become income to the shareholders, but is accretion to the capital; and it is the same whether they increase the shares or the par value of the shares, or leave the shares unaltered. And if the number of shares is increased for purposes merely speculative, it is an increase of capital stock and not of income, and it has been suggested that it would be practically unwise for courts to go behind the action of the company and attempt to ascertain how they came by the funds out of which they declare either their cash or their stock dividends.[1]

The right to take new shares on increase of the capital stock is a benefit or interest which attaches to the stock, and is not usually considered as income derived from the prosecution of the corporate business, but inherent in the shares; and it is important to understand this principle, as we have seen in cases where stock is left in trust to pay the income for life with one person with remainder of the principal to another.[2] If a stock dividend under such circumstances is declared, the trustee would take it as capital for the remainderman, and not as income for the benefit of the life estate, although it is the result of the net earnings of the corporation.[3]

Sec. 98. **Right to sell and assign shares.** — The capital stock of an incorporated company is personal property; but the certificate of shares thereof, or other evidence of ownership or title, has none of the qualities of negotiable or commercial paper.[4] The owner may sell and assign such shares like any other personal property. The right of alienation is an incident of such property, as well as any other, and a by-law of the corporation prohibiting alienation, or placing restraints thereon, is void.[5]

[1] Boston, etc., R. Co. v. Commonwealth, 100 Mass. 399.

[2] Atkins v. Albree, 12 Allen, 359.

[3] Minot v. Paine, 99 Mass. 101. See, also, Daland v. Williams, 101 id. 571; Leland v. Hayden, 102 id. 542; Heard v. Eldredge, 109 id. 258; Rand v. Hubbell, 115 id. 461; Gifford v. Thompson, id. 478.

[4] Weaver v. Barden, 3 Lans. 338. See, also, Shaw v. Spencer, 100 Mass. 382.

[5] Moore v. Bank of Commerce, 52 Mo. 337. Stock in an incorporated company is property within the meaning of the Civil Code of Kentucky. Field v. Montmollin, 5 Bush, 455. And a by-law, which imposes restraints on, or unreasonable impediments to alienation or the transfer of stock, unless the power so to do has been conferred by the fundamental law of its institution, would be void. Sargeant v. Franklin Ins. Co., 8 Pick. 90; Quiner v. Marblehead Ins. Co., 10 Mass. 476. See, also, Robinson v. Chartered Bank, L. R., Eq. 32. But in Missouri it has recently been held that a by-law for-

But the purchaser or assignee of shares of such capital stock acquires no better right or title than the seller or assignor had, and takes it subject to the equitable and legal rights of the corporation, and of previous innocent *bona fide* purchasers. If the rightful owner has invested another with the usual evidence of title, or an apparent authority to dispose of the stock, he will be estopped from making any claim against an innocent purchaser dealing upon the faith of such apparent ownership or right of disposition.[1] And to entitle a party to the character of a *bona fide* purchaser, without notice of a prior right or equity, he must not only have obtained the legal right to the shares, but he must have paid the purchase-money, or some part thereof, or have parted with value on the faith of the purchase, before notice of such prior right or equity; and the mere giving of security to pay the purchase-money is not of itself sufficient to entitle the purchaser to protection.[2] A delivery of stock as collateral security for an indebtedness, with the usual power of attorney indorsed thereon, and signed by the owner in blank, transfers all the owner's title, both legal and equitable, subject only to the liens or claims of the corporation, and only the holder of the certificate, with power to transfer can cause a transfer on the books of the company.[3]

SEC. 99. **Transfer of stock.** — Although certificates of shares do not possess the ordinary qualities of commercial contracts or negotiable obligations, and assignments of them may be subject to all legal and equitable claims of the company, yet every reasonable facility is usually offered for the transfer of them from one

bidding the transfer of stock, when the owner is indebted to the corporation, is valid, although inconsistent with the general law of the state governing general transfer of property; and in case of a sale of shares of stock under execution, the purchaser cannot recover the shares or their value, where such a by-law exists, until such indebtedness be satisfied. Mechanics' Bank v. Merchants' Bank, 45 Mo. 513

[1] Weaver v. Barden, 49 N. Y. 286. If a *bona fide* assignee of bank stock has a valid transfer thereof on the books of the bank, and takes the same without any notice of previous assignment of the stock not entered on the transfer book, he has a prior and better right than the previous assignee. Cady v. Potter, 55 Barb. 463.

[2] Id. See, also, Mechanics' Bank v. N. Y. R. Co., 13 N. Y. 627.

[3] Smith v. American Coal Co., 7 Lans. 317. The assignee acquires a legal title as against the assignor, but only an equitable one as against the company. But the manual delivery of the certificate is not absolutely necessary. Grymes v. Hone, 49 N. Y. 17.

to another. But, for the protection of the owner and the corporation, and to afford the latter knowledge which it may need in giving the required notice to members for certain purposes, it is usually provided that transfers of stock shall only be made on a book kept for that purpose in the office of the company, and under the care of some officer or agent appointed for that purpose, and the corporation may be responsible on general principles for any negligence or misconduct on the part of such agent in performing such duty, whereby injury results to others. A trust is thus imposed upon the corporation, and if for a failure to perform its duty a stockholder is injured, it is responsible. Thus, where one having a certificate of shares of stock in a railroad company duly assigned them to another, and afterward, on application by the assignor and the presentation to the company of an affidavit that he had lost his certificate, procured the issue of a new certificate in its stead upon giving a bond "to save the company harmless from all loss by reason of said second issue and from any liability or account of * * the stock described in said affidavit;" and the company afterward refused to allow any transfer of the stock on its books when requested by the holder of the original certificates, and the stock, of the value of $700, depreciated so that it became worthless, in an action therefor against the company and the assignor it was held that an action would be sustained against such company for such refusal; and that, although the bond was general assets of the company, the plaintiff could not have by subrogation a right of action in equity upon it.[1] And when the charter provides for the transfer of shares only on the books of the corporation, still the assignment of a certificate with a written power to the assignee to transfer the stock to himself on the books is a symbolical delivery affecting those who have notice thereof, as if the transfer had been made on the books of the corporation.[2] And where one having sufficient funds in bank at the time, paid by his check for certain shares which were transferred on the books thereof to his credit, but no certificate was issued, and the bank was afterward notified of an adverse claim

[1] Greenleaf v. Ludington, 15 Wis. 558.

[2] Bank of America v. McNeil, 10 Bush, 54. See, also, Hill v. Newichawanick Co., 48 How. Pr. 527.

to his deposit, growing out of previous and independent frauds which the depositor had committed, and the bank refused to pay the check, and the assignor became a bankrupt, it was held that the assignee of the shares could not maintain a bill against the original owner and the corporation to compel a conveyance thereof.[1] And generally it may be said that where the charter of a company requires that its stock shall be transferred in a certain way, a long continued and universal disregard of that method estops the company from setting up the charter provisions in that respect to the prejudice of third persons,[2] the rule being that a transfer of stock made according to the usage of the company is valid, as against the company, although it does not conform to the requirements of its by-laws.[3] The equitable title to stock may pass, although the transfer is not made according to the provisions of the charter or by-laws.[4] The provision usual in charters that no transfer of the stock shall be effectual until entered on the books of the company is a regulation designed for the security of the corporation itself, and of third persons taking transfers without notice of any prior equitable transfer. It relates to the transfer of the *legal* title, and not of any equitable interest subordinate to that title. As between the vendor and purchaser, a transfer not in conformity to such provision passes the equitable title and divests the vendor of his interest,[5] and courts of equity will, where there is no statute to prevent it, protect this equitable title against the attachments of creditors of the vendor, who have notice of such transfer. Thus in a Connecticut case,[6] it appeared

[1] Comins v. Coe, 117 Mass. 45.

[2] Bangate v. Shortridge, 5 H. L. Cas. 297.

[3] Sargent v. Essex Marine Railway, 9 Pick 204; Chambersburgh Ins. Co. v. Smith, 11 Penn. St. 120; Choteau Springs Co. v. Harris, 20 Mo. 382.

[4] Colt v. Ives, 31 Conn. 25; Sargent v. Franklin Ins. Co., 8 Pick. 90.

[5] Black v. Zacharie, 3 How. (U. S.) 483; Farmers' Bank of Maryland v. Iglehart, 6 Gill (Md.), 50; Duke v. Cahawba Navigation Co., 10 Ala. 82.

[6] Colt v. Ives, *ante*. We append the opinion of HINMAN, Ch. J., in this case, as it is of sufficient importance to give it a place in a work of this character, upon a question of so much importance. He said: "The attaching creditors, who are the real parties in interest in this cause, assume that by a course of decisions in Connecticut, stock in a corporation is held to be so peculiar in its nature and character that no transfer can be made of it, or even any equitable interest acquired in it, as against attaching creditors, unless by an actual transfer made upon the corporation books, or recorded in them, in the mode prescribed by the charter or by-laws of the institution; and the cases of The Marlborough Manufacturing Co. v. Smith, 2 Conn. 579; Northrop v. Newtown & Bridgeport Turnpike Co., 3 id. 544, and Northrop v. Curtiss, 5 id.

that one William Jarvis was in 1846 appointed guardian of the petitioner Elizabeth Colt, who was his daughter, and was then a minor and unmarried. At that time there came into his hands

246, subsequently sanctioned by more modern cases in our reports, as is claimed, are relied upon in support of the position. The first two of these cases, and the case of The Oxford Turnpike Co. v. Bunnel, 6 Conn. 552, do undoubtedly decide that, in actions at law, in cases where the legislature in the act of incorporation either prescribe the mode of transferring stock, or authorize the company to do it in their by-laws, and the company do in their by-laws prescribe a mode as the only one to be pursued, that mode must be followed, or the legal title will not pass by an assignment which would be good at common law had no particular and exclusive mode of transfer been prescribed. These cases, and others to the same effect, being actions at law, conversant only with what at the time was considered the strict legal title to corporate stock, have necessarily no controlling force in a case depending upon equitable instead of legal principles. And although the case of Northrop v. Curtiss was upon a bill in chancery praying that the legal title to certain shares of stock might be transferred to the plaintiff, who claimed the equitable title thereto, yet the case itself shows that the plaintiff relied not only upon what he considered an equitable as distinguished from a legal assignment of the stock to himself, but more particularly upon the fact that the party from whom he claimed to have derived his title, such as it was, had only an equitable interest in the stock to assign, and therefore could not create in the plaintiff as his assignee any better title than he himself had in it; and it was upon this last ground that he insisted that the intervening attaching creditors took nothing, because, as he claimed, the debtor's equitable interest was not the subject of an attachment. The court was of opinion that the debtor had a valid legal title at the time his stock was attached and taken in execution, and therefore that the plaintiff's title, derived from him subsequently to the attachment, was of no validity, and on this ground dismissed the bill. It appears to us, therefore, that there is nothing in any of these cases that ought to control our determination of the present case, contrary to the strong equitable claim of the plaintiff, as shown in the facts found by the court, whatever may be thought of some of the remarks made by the judges in giving reasons for the decisions. On the contrary, the cases themselves, so far as they decide that there can be no legal transfer of stock except upon the books of the company, or by an assignment actually recorded on those books, may be regarded as authorities showing that the plaintiff has no legal title to the stock and is therefore justified in applying to a court of equity for relief.

Shares in the stock of a corporation are the subjects of sale, mortgage or pledge, and are liable to attachment and execution like other personal property. And when the question is between a vendee and an attaching creditor of the vendor, as to which of them has the better title, and it appears, as it does here, that the instrument of transfer or assignment was executed prior in point of time to the service of the attachment, then, if the vendee's purchase was made in good faith and for a valuable consideration, as to which no question is made in this case, it would seem that in equity his title ought to prevail, provided he has done all that the law requires of him, and all that it was possible for him to do, in taking such possession as the nature of the property is susceptible of. In regard to chattels there must be a substantial change of possession accompanying and following the sale, or it will, unexplained, be conclusive evidence of a fraudulent trust, which will render the sale void as to creditors. Possession being the usual indication of ownership in personal chattels, the law looks upon the purchaser's neglect to take and hold possession of the property purchased as evidence that the sale was fictitious, and therefore, as to the vendor's creditors, treats the property as still his,

about $5,000 in cash, as a part of her estate, no part of the principal of which had ever been paid over to her. The petitioner was married in 1856. The funds belonging to the petitioner in

notwithstanding the sale. So in respect to the assignment of ordinary choses in action, there must be notice of the assignment to the debtor—the assignment conveying but an equitable interest in the thing, and notice to a trustee being in equity the ordinary and only practicable mode in which an assignee can protect his interest. And in the case of the purchase of stock in a corporation, there must be such a transfer of it as the legislature in the charter or by statute prescribes; and notice of the assignment of choses in action, and the transfer required by statute of corporate stock, stand in lieu of the taking and retaining of the possession of personal chattels sold, being the only possession the nature of the property admits of. These elementary principles, for which surely no authority need be cited, it is necessary to bear in mind in considering a case of this sort; since, if a good reason is shown for not giving notice of the assignment of a chose in action, as was the case in Bishop v. Holcomb, 10 Conn. 444, or for the failure to procure a transfer of stock on the books of a corporation, as in this case, which would have been sufficient to excuse the taking possession of personal chattels sold, then upon the same principles upon which the taking possession in the latter case would be excused, it would seem that the act which is ordinarily required in order to perfect an assignment of a chose in action or of stock in a corporation ought in equity certainly to be also excused.

The application of these suggestions to the case in hand seems quite obvious. We need not determine whether the written assignment of the stock by Mr. Jarvis passed the legal title or only an equitable title, since it is very clear that in either case it passed all the substantial interest, and left in him, if any thing, only the technical legal title.

But the respondents claim that, so long as this bare legal title remained, with no knowledge on the part of his creditors that he had made the assignment, it was open to their attachments as his to the same extent as before the assignment. We think this too broad a claim. The ground on which stock sold but not legally transferred is open to attachment by the creditors of the vendor is, as has been suggested, the same upon which personal chattels sold but retained in the possession of the vendor are liable to attachment by the vendor's creditors. The principle in each case is, that the retention of possession is a badge of fraud — that is, is evidence of a fraudulent secret trust. This is the reason given in the recent case of Shipman v. Ætna Ins. Co., 29 Conn. 245, why certain stock, sold by a written bill of sale but not transferred, was held to pass to the trustee in insolvency of the vendor; the trustee being held to have taken precisely as an attaching creditor would have done.

But it is well settled that this retention of possession in every case is only a *badge*, that is, is *evidence* of fraud, to be regarded as conclusive where the retention of possession is voluntary and unnecessary.

And it is to be observed that it is the policy of the law which forbids this retention of possession; and the liability of the property to attachment is in a measure a punishment, either for the actual fraud, or the negligence of the vendor. Hence it is said in the cases on this subject that "proof of the payment of a full consideration, or of the justice of the debt for which the property is taken on legal process, accompanied with the highest evidence of the honesty of the transaction, will not, in general, be sufficient to repel the legal effect of neglecting an actual removal of the property." Mills v. Camp, 14 Conn. 219; Kirtland v. Snow, 20 id. 23. The rule therefore is, to a certain extent, punitive in its character, creating something in the nature of a forfeiture for the violation of the policy of the law. It is on this ground that the rule is relaxed where there has been no voluntary violation of this policy. If the manual delivery of the article sold, in consequence of

common with funds of his had been invested in stocks and other securities, and it was agreed between them a short time before her marriage, she being then of full age, that she should select in

its bulk or situation, is impossible, the delivery and taking possession are excused. So where the vendor has used due diligence to make delivery, and the vendee to take possession, the property is not open to attachment; as in the case of Mead v. Smith, 16 Conn. 346, where it was held that a purchaser in New York was to be allowed a reasonable time to come into Connecticut to take possession of the property purchased; and it is always held that a grantee is to be allowed a reasonable time to get his deed to the recording office. Now whether this principle ought to be applied in actions at law, depending upon rigid legal principles, to the case of the transfer of stock in a corporation, perhaps depends upon whether we regard the dictum in the case of The Newtown & Bridgeport Turnpike Co. v. Northrop, as correct, "that the transfer on the books of a company does not operate by giving notice of an antecedent conveyance, but is a fact essentially necessary to originate a title." But we are not called on to discuss this question at this time. It is only necessary to say therefore that the respondents admit that such is not the law generally; and it is claimed merely to be the law of Connecticut, founded upon peculiar views which have obtained here. But whether it is law or not, so far as regards the bare technical legal title, and to be adhered to in trials at law, we are satisfied that it ought not to be regarded as having the controlling force and efficacy claimed for it in equity. No such ground was taken or suggested in the case of Shipman v. The Ætna Ins. Co., before referred to; and the late case of The Bridgeport Bank v. The New York & New Haven R. R. Co., 30 Conn. 231, proceeded throughout upon the idea that the plaintiffs had a good equitable title to the stock claimed in that case. In analogy then to the principles which have been suggested, we think the effort of the vendor to get the assignment perfected on the transfer books of the company, and on failure to accomplish this his effort to make the assignment as notorious as possible, constituting not only due diligence but all the diligence on his part that it was possible to exercise, ought to exempt this retention of possession from the condemnation of the law, if a retention of possession ever can be. Indeed the retention of possession was as nearly nominal as possible. Assuming then that the respondents are correct in the claim that this retention of possession involves the retention of the naked legal title also, is this circumstance sufficient to distinguish the case from those cases where the retention of possession by the vendor may be excused or justified? In the case of the sale of personal property the mere sale is ordinarily sufficient to pass the legal title between the parties before delivery; while here it is claimed that the formal transfer on the books of the company was necessary for that purpose. But ought this distinction to be allowed to deprive the petitioner of her property, when, if it was of any other description, she would confessedly hold it? Is the distinction so material that the case must rest upon the mere fact that a bare legal title was retained against the desire of the vendor and his utmost effort to convey it? This certainly is to place the case upon the most technical ground possible, and it would vest in corporations and their officers the power to prevent the transfers of their stock by the holders of it —a power which it is too much to be feared would not always be exercised with the most disinterested motives. It is true there will sometimes be cases where a mere technical title will prevail; but it is desirable, so far as practicable, that the substantial and equitable ownership should be sustained rather than a technical title; and so far as the rule was intended to be punitive in its application, in order to compel a conformity to the policy of the law, there is no reason why a party who has done all that he possibly could should be made to suffer any penalty. The plaintiff then, having

payment of the $5,000, from any of the stock then owned by him, such an amount as at the par value would amount to that sum. She thereupon selected the stock of the Hartford and New Haven Railroad Company, and Mr. Jarvis assented thereto, but the stock was not at that time transferred to her, though an instrument in writing for the purpose of transferring it was drawn, but remained unexecuted. Afterward, on the 10th of August, 1857, the stock so intended to be transferred to her was attached at the suit of the Middletown Savings Bank as the property of Mr. Jarvis. Mr. Jarvis, not knowing that the stock was about to be attached, had on the same day gone to Hartford for the purpose of transferring it in pursuance of the agreement, but learning that the same had been attached about an hour before his arrival, and believing that the attachment would soon be removed, he deferred transferring it to the petitioner at that time. Afterward, on the 16th of September, 1857, Mr. Jarvis transferred forty-nine shares of the stock, subject to the attachment to the petitioner, by the following instrument executed by him:

"For value received of Elizabeth H. Colt, of the city and county of Hartford, I hereby assign and transfer unto the said Elizabeth H. Colt all my right, title and interest in and to forty-nine shares of the capital stock of the Hartford and New Haven Railroad Company, now standing in my name on the books of said company. Said stock is now subject to an attachment in favor of the Middletown Savings Bank for the sum of $5,000. And I appoint, authorize and empower, as my attorney, H. Fitch, Esq., of said city of Hartford, for me and in my name to transfer said stock to said Elizabeth H. Colt on the books of said company. In witness whereof, I have hereunto set my hand and seal, this 16th day of September, 1857.

"WILLIAM JARVIS. (Seal.)"

"Witness, S. P. CONNER."

On the same day he placed the instrument in the hands of Horatio Fitch, then secretary of the company, for record, and for whatever might be needful in relation thereto, according to the

done, or having had done for her, all that could be done, is wholly without fault. Her debt was of as high a nature as the respondents'. She had acquired a perfect equitable title to the stock, and she had taken every possible means to obtain the legal title also."

by-laws of the company, and at the same time surrendered the certificate of stock which he held; but the president of the company then, and at all times thereafter before the bringing of the present petition, declined to permit the instrument to be recorded, or any transfer to be made on the books of the company, because the shares had been attached as before stated; and the secretary declined for this reason to act further in the premises than to enter on the certificate and transfer the time when the same were received, and the instrument was not at the time of the attachments of the respondents recorded upon the books of the company. The instrument of transfer was drawn in all respects according to law, and according to the by-laws of the company, and the original certificate was duly surrendered to the company, and the president and secretary had no excuse for not permitting the transfer to be recorded, unless the facts stated constitute in law such an excuse.

The charter of the company provided that the stock of the company should "be transferred in such manner as the by-laws of said company [should] direct." The by-law of the company with regard to the transfer of stock was as follows:

"9th. Regular transfer books shall be kept by the secretary, at the office of the company in Hartford only, and certificates of stock such as are now in use shall be issued, signed by the president and countersigned by the secretary. No transfer shall be permitted but by stockholders in person, or by power of attorney duly attested by at least one witness, and no transfer shall be permitted but on the surrender of the certificate which had been issued therefor, unless bonds of indemnity, approved by the board, are given."

The stock remained subject to the attachment of the Middletown Savings Bank until the 27th of March, 1858, when judgment having been recovered and execution satisfied from other property, the attachment was determined, and the stock was then free from all incumbrances prior in date to the assignment to the petitioner; but the company still refused to cause the transfer to be recorded upon their books, on the ground that the stock had, subsequently to the assignment, been attached by the respondent Ives, whose suit was then pending. The judgment obtained on

this attachment had, since the bringing of the present petition, been otherwise satisfied.

Afterward, on the 17th of December, 1858, writs of attachment were levied on the stock, as the property of Mr. Jarvis, by leaving copies thereof with the secretary of the company by the officer serving the same, at the suits respectively of Truman French and Edward S. Rowland, two of the respondents; each placed writs of attachment in the hands of an officer with instructions to attach this stock. When the officer went to the secretary of the company he was informed by the secretary that the stock stood on the books of the company in the name of Jarvis, but that he then held and had held for some time an assignment of the stock to the petitioner, and a power of attorney from Mr. Jarvis to transfer the stock to her on the books of the company. But the officer attached the stock notwithstanding this information. The court held that the equitable title vested in the petitioner, and that, as the attaching creditors had notice of the fact before the attachments were made, a court of equity would protect her title.

SEC. 100. **Power of attorney to transfer, presumption arising from.** — Again, it has been held that where a holder of certificates of shares of stock has an irrevocable power of attorney from the former owner to transfer them, this is at least presumptive evidence of the equitable ownership of the holder; and if he is further shown to be the holder for value without notice, his title cannot be impeached, although the attorney's name is left in blank.[1] The power of attorney in such a case may be filled up, and the transfer executed by any *bona fide* holder whose name is inserted in the blank, and the power is not exhausted by the first use, nor revoked by the maker's death, nor affected by passing through any number of hands, until its execution by an actual transfer of the stock under the power. The rules of the company as to the mode of making transfers of stock and requiring the surrender of the certificate, although they may be insisted upon by the company to protect its rights, yet they do not affect the rights and interests of third persons who are ignorant of their

[1] Leavitt v. Fisher, 4 Duer, 1.

provisions; and a transfer of stock upon the books of a company to a *bona fide* holder for value in such a case carries the title to the stock, although the certificate previously issued was not surrendered at the time of the transfer.[1] And the transferee of shares is not personally liable for unpaid installments due on such shares to the company in the absence of any provision in the act of incorporation making him liable under such circumstances, or any stipulation to that effect in his contract.[2] Subscriptions to the stock of a corporation not paid are corporate property, and a trust fund which can be reached by the creditors of the corporation,[3] and, when a subscription is once perfected, the directors have no power to release a subscriber from his engagement, to the prejudice of such creditors,[4] not even by a purchase of his shares,[5] consequently it would follow that they could not release him by assenting to his selling the stock to a third person, so far as the creditors of the company are concerned.

SEC. 101. **Liability of assignees to the corporation.** — The liability of the assignee of stock to the corporation must depend upon the provisions of his contract with the assignor, and the constating instruments. If by these he is substituted to the rights of the assignor, and subject to his liabilities, then there is sufficient mutuality between the assignee and the corporation to make him liable on such subscription. If the assignment is authorized by such instruments, the liability to pay subsequent installments is changed from the subscriber to the assignee, and the assignor of the stock would be discharged from liability thereon. And especially would this be the case if such assignment was made by the express assent of the corporation.[6]

[1] New York, etc., R. Co. v. Schuyler, 38 Barb. 534.

[2] Palmer v. Ridge Mining Co., 34 Penn. St. 288.

[3] Bassett v. St. Albans, etc., Co., 47 Vt. 313; Schaeffer v. Missouri, etc., Ins. Co., 46 Mo. 248.

[4] Hughes v. Antietam Manuf. Co., 34 Md. 316; Putnam v. New Albany, 4 Biss. 365; Osgood v. King, 42 Iowa, 478; *In re* Bachman, 12 Bankr. Reg. 223; Fishkill v. Joliet Opera House, 79 Ill. 334; Melvin v. Lamar Ins. Co., 80 Ill. 446.

[5] Currier v. Lebanon Slate Co., 56 N. H. 262; *In re* County Palatine Loan, etc., Co., L. R., 9 Ch. App. 691.

[6] Mann v. Prentz, 2 Sandf. Ch. 258; Hudersfield Canal Co. v. Buckley, 7 T. R. 36; West Philadelphia Canal Co. v. Innes, 3 Whart. 198; Mann v. Currie, 2 Barb. 294; Cowles v. Cromwell, 25 id. 413; Hall v. U. S. Ins. Co., 5 Gill, 484; Bend v. Susquehanna Bridge Co., 6 H. & J. 128; Hartford R. Co. v. Boorman, 12 Conn. 539.

"One who accepts a subscription made by another on his behalf, and

But a solvent and responsible party cannot, in case of the insolvency of the corporation or in anticipation of such an event, or for the purpose of escaping liability for the unpaid amounts due upon stock subscribed, assign the certificates to another party, and especially to an irresponsible person, and thereby be discharged from liability.[1] And where the constating instruments or by-laws require the substitution of the name on the books of the company, the subscriber cannot without a compliance with such provisions require the corporation to subrogate an assignee, and to look to the assignee for payment of the amount due upon the subscription of the original subscriber.[2]

pays the calls made thereon and receives a certificate of ownership is responsible as shareholders; and it makes no difference that his name does not appear upon the transfer books or the alphabetical list of stockholders as a transferee of stock. And one may become a shareholder without receiving a certificate of stock." 1 Redf. on Rail., § 53, par. 10; citing Burr v. Wilcox, 6 Bosw. 198.

[1] Mann v. Cooke, 20 Conn. 178; Everhart v. West Chester, etc., R. Co., 28 Penn. St. 339; Graff v. Pittsburgh R. Co., 31 id. 489; Hays v. Pittsburgh R. Co., 38 id. 81. "If the former owner was indebted to the corporation, and the charter required all such indebtedness to be liquidated before transfer of stock, such indebtedness will remain a lien upon the stock in the hands of the assignee." 1 Redf. on Rail., §§ 32-4. See, also, Union B'k v. Laird, 2 Wheat. 390; Marlborough Man. Co. v. Smith, 2 Conn. 579; Pittsburgh, etc., Co. v. Clark, 29 Penn. St. 146.

[2] Ryder v. Alton, etc., R. Co., 13 Ill. 516. See, also, *Ex parte* Bennett, 18 Barb. 339; 5 De G. M. & G. 284; 27 Eng. L. & Eq. 572, where the court say: "A subscriber for stock cannot subrogate another person to his obligation, without a substitution of his name upon the books of the company, or some equivalent act recognized by the charter and by-laws of the company. * * * The principal difficulty, in regard to liability for calls, arises where there have been transfers, and the name of the transferee not entered upon the books of the company. For, whenever the name of the vendee of shares is transferred to the register of shareholders, the cases all agree that the vendor is exonerated (unless there is some express provision of law by which the liability of the original subscriber still continues), and the vendee becomes liable for future calls. And the vendee having made such representation to the company, as to induce them to enter his name upon the register of shares, is estopped to deny the validity of the transfer. And even where the party has represented himself to the company as the owner of shares, and sent in scrip certificates, which had been purchased by him claiming to be registered as proprietor, in respect thereof, and had received from the company receipts therefor, with a notice that they would be exchanged for sealed certificates on demand, he was held estopped to deny his liability for calls, although his name had not been entered upon the register of shareholders, or any memorial of transfer entered as required by the act. And where one has paid calls on shares, or attended meetings of the company, as the proprietor of shares, he is estopped to deny such membership." Citing Sheffield, etc., R. Co. v. Woodcock, 2 Railw. C. 522; S. C., 7 M. & W. 574; London and Grand J. R. v. Freeman, 2 Railw. C. 468; S. C., 2 M. & G. 606; Cheltenham, etc., R. Co. v. Daniel, 2 Q. B.

Sec. 102. **Liability of purchasers from trustees.** — It is a familiar principle in equity jurisprudence that one who deals with a trustee, in reference to property held in trust, must act in good faith; and if he is aware of the character in which the property is held, he cannot purchase it, in satisfaction of an antecedent debt due from the trustee to him, nor can he prejudice the rights of the *cestui que trust*, by receiving the property as a pledge for the payment of a personal debt due from the trustee, or for the repayment of money advanced for his personal benefit.[1]

Sec. 103. **Right of trustee to pledge.** — In a recent case in Massachusetts, the question presented was, whether the holder of a certificate of stock, in which his name was inserted as "trustee," could pledge the same for his own personal debt so as to enable the pledgee to have the benefit of the same, or whether the pledgee was not put upon inquiry, from the character and limitations of the certificate, and whether, if he take the same, he does not do so at his peril, so far as any just rights of the *cestui que trust* are concerned. On these questions, Foster, J., in delivering the opinion of the supreme court of that state, observes: "Unless the word 'trustee' may be regarded as mere *descriptio personæ*, and rejected as a nullity, there was plain and actual notice of the existence of a trust of some description. A trust as to personalty, or a chose in action, need not be expressed in writing, but may be established by parol. And that the mere uses of the word 'trustee' in the assignment of a mortgage and note imports the existence of a trust and gives notice thereof to all into whose hands the instrument comes, has been expressly decided by this

281; Same v. De Medina, 2 Railw. C. 728; London, etc., R. Co. v. Graham, id. 870; S. C., 1 Q. B. 271.

If provisions are made for the transfer of shares, and these are complied with, or waived by the corporation at the request of the assignee, his liability to calls is complete. Haddesfield Can. Co. v. Buckley, 7 T. R. 36; Aylesbury R. v. Mount, 5 Scott N. R. 127; West Phil. Canal Co. v. Innes, 3 Whart. 198; Mann v. Currie, 2 Barb. 294; Hall v. U. S. Ins. Co., 5 Gill, 484; Bend v. Susquehanna Br. Co., 6 H. & J. 128; Ang. & Am. on Corp., chap. 15, § 534.

[1] Eland v. Eland, 4 M. & C. 420; Watkins v. Cheek, 2 Sim. & Stu. 199. Mr. Kent observes: "One obvious example of this is, where a devisee has a right to sell, but he sells to pay his own debt, which is a manifest breach of the trust, and the party who concurs in the sale is aware or has notice of the fact that such is its object, for in such a case they are coadjutors in the fraud." 2 Story's Eq. Jur., § 1131*a*.

court.[1] It is insisted on behalf of the defendants, that even if there was actual notice of the existence of a trust there was no notice of its character, and that the trust might have been such as to authorize the transfer which was made. * * * But in our opinion the simple answer to this position is, that where one known to be a trustee is found pledging that which is known to be trust property to secure a debt due from the firm of which he is a member, the act is one *prima facie* unauthorized and unlawful, and it is the duty of him who takes such security to ascertain whether the trustee has a right to give it. The appropriation of corporate stock held in trust as collateral security for the trustee's own debt, or a debt which he owes jointly with others, is a transaction so far beyond the ordinary scope of a trustee's authority, and out of the common course of business, as to be in itself a suspicious circumstance, imposing upon the creditor the duty of inquiry. This would hardly be controverted in a case where the stock was held by 'A. B., trustee for C. D.' But the effect of the word 'trustee' alone is the same. It means trustee for some one, whose name is not disclosed; and there is no greater reason for assuming that a trustee is authorized to pledge for his own debt the property of an unnamed *cestui que trust*, than the property of one whose name is known. In either case it is highly improbable that the right to do so exists. The apparent difference between the two springs from the erroneous assumption that the word 'trustee,' alone, has no meaning or legal effect. Inasmuch as such an act of pledging property is *prima facie* unlawful, there would be little hardship in imposing on the party who takes the security not only the duty of inquiry, but the burden of ascertaining the actual facts at his peril. Where a partner assumes to give for his own private debt the note of his firm, the creditor who takes it must show that it was given with the assent of the other partners, because it is an apparent misuse of the name of the firm, and *prima facie* evidence of fraud.[2] But we must not go to that length in deciding the present case. Notice of the existence of a trust is by all the authorities held to impose the

[1] Sturtevant v. Jaques, 14 Allen, 523; Trull v. Trull, 13 id. 407. See, also, Bancroft v. Consen, id. 50.

[2] Eastman v. Cooper, 15 Pick. 290.

duty of inquiring as to its character and limitations. And whatever is sufficient to put a person of ordinary prudence upon inquiry is constructive notice of every thing to which that inquiry might have led." [1]

Sec. 104. **Rights of cestui que trust against purchaser.**— This doctrine is equally applicable to property in the capital stock of a corporation as to other property. Where a person holding corporate stocks, as trustee for another, borrowed money on certificates, by depositing them as collateral security for the repayment of the money, and used the money in his own business, and they were subsequently sold upon the failure of the trustees to repay the loan; and the certificates showed upon their face that they were issued to him as trustee; and the *cestui que trust* had never given the trustee any authority to re invest the money, and did not know that the certificates had been used as collateral security; under these facts, it was held by the supreme court of the United States, that the parties who took the certificates had constructive notice of the rights of the beneficiary, or *cestui que trust*, and were liable to him to the full value of the stock.[2]

But in California it has been held that the mere fact that a person holding the certificates of stock and apparently having the right of disposition of the same is styled "trustee," raises no presumption that he has not authority to sell, or hypothecate it, in

[1] Shaw v. Spencer, 100 Mass. 382. See, also, Jones v. Smith, 1 Hare, 55; Jones v. Williams, 24 Beav. 62; Buttrick v. Holden, 13 Metc. 355; Calais Steamboat Co. v. Van Pelt, 2 Black (U. S.), 377; Ashton v. Atlantic Bank, 3 Allen, 217; Hutchins v. State Bank, 12 Metc. 421; Smith on Eq., tit. 1, chap. 4, 10. Where an executor disposes of or pledges his testator's assets, in payment of, or as security for a debt of his own, the person to whom they are sold or pledged will take them subject to the claims of the creditors of the legatees. Elliott v. Merryman, 1 Lead. Cas. in Eq. 89; Hill v. Simpson, 7 Ves. 152. See, also, Petrie v. Clark, 11 S. & R. 377; Field v. Schieffelin, 7 Johns. Ch. 150; Walker v. Taylor, 4 Law Times (N. S.), 845; 2 Redf. on Wills, chap. 8, § 32.

[2] Duncan v. Jaudon, 15 Wall. 165. Where the court will declare a trust in shares, see Price v. Minot, 107 Mass. 49. A bank, whose certificate of stock entitled the holder to so many shares which are upon their face transferable on the books of the company, by attorney or in person, when the certificates are surrendered, but not otherwise, and which allows a stockholder to transfer his stock on the books of the bank, without producing and surrendering the certificates, is liable to a *bona fide* transferee, for value, of the same stock, who produces the certificates with properly executed power of attorney to transfer; and the fact that the bank had no notice of the latter transfer is immaterial. First Nat. Bank v. Lanier, 11 Wall. 369.

the usual course of business.[1] So, the corporation may be responsible to a *cestui que trust*, where it permits a transfer of its own stock wrongfully by an executor, by which the rights of innocent parties are prejudiced. A corporation, whose stock is transferable, is held to be the custodian of the shares, and is clothed with the power to protect the rights of every one from unauthorized transfers. This trust is reposed in the corporation for the protection of individual interests; and like every other trustee the corporation is bound to use due diligence and care in the execution of the trust, and is responsible for any injury sustained by its negligence or misconduct. As the corporation appoints the officers before whom the transfers must be made, it is responsible for their negligent acts, and must answer for their negligence or default, whenever the rights of third persons are concerned. Thus, where a bank permitted a transfer of its stock, standing in the name of a testator on its books, by the executor, it was held chargeable with notice of the provisions of the will under which he acted, and that an omission to examine the will and the specific bequests of the stock standing in the name of the testator, amounted to negligence on the part of the bank, and rendered it liable to the *cestui que trust* for any conversion of the stock thus wrongfully transferred by the executor.[2]

SEC. 105. **Stockholder's right to vote.**— Holding stock constitutes membership in joint-stock corporations.

We have already referred to the right of members and stockholders, as such, to vote at all corporate meetings;[3] and we shall hereafter have occasion to consider the right more fully when we come to consider the subject of corporate and directors' meetings.

[1] Brewster v. Sime, 42 Cal. 139. See, also, Albert v. Savings Bank, 1 Md. Ch. 407. But in Pennsylvania, one holding stock as "trustee of M. G.," it was held, could not insist upon its transfer by the corporation, without exhibiting his authority for so doing. Bayard v. Farmers, etc., Bank, 52 Penn. St. 232.

[2] Lowrey v. Commercial, etc., Bank, Taney, 310. See, also, Shaw v. Spencer, 100 Mass. 382. But see Albert v. Savings Bank, 1 Md. Ch. 407. As to the right of an assignee to demand a transfer on books, see Bond v. Mount Hope Iron Co., 99 Mass. 505. In New York, a valid gift, in view of death, may be made by simple delivery of the certificates, with intent to transfer the stock, even though the certificates contain a general restriction upon this mode of transfer. Walsh v. Sexton, 55 Barb. 251. See *ante*, p. .

[3] But it does not appear always essential that the owners of stock have a certificate thereof, to entitle them to vote at an election for directors. Beckett v. Houston, 32 Ind. 393.

This right, we may here observe, is incident to the relation which the corporators bear to the corporation; and is one of those absolute rights, to deprive him of which would be a violation of his constitutional rights.

Sec. 106. **Rights of stockholders to access to books.**— It will be evident from the relation which the stockholder sustains to the corporate body, that he should have the right of access to, and examination of, the books and records of the corporation, and be restricted in this respect only by the charter, or such reasonable rules and by-laws in reference thereto, as are adopted in conformity with the fundamental law of its institution, and public policy. If he is not restricted by these, a stockholder should have a right to inspect the books at reasonable and proper times; and if this right is denied he would be entitled to the compulsory process of *mandamus* to allow him so to do.[1] And if he is refused such right he could maintain an action for damages sustained by reason therefor. But, in an action against the corporation to recover a penalty provided by statute for such a refusal, it was held that the complainant must show that the officer upon whom the demand for inspection was made had notice that the person making the demand was entitled to the inspection.[2] When a statute prescribes that the stock and transfer books of incorporated companies shall be open to the examination of stockholders, a stockholder cannot be deprived of the right to inspect them because they are kept in a particular way, or because they contain, besides the information to which he is entitled, other information which he has no right to demand. If the corporation in such a case does not keep the books or records in the manner and form required, or as the statute prescribes, it is its duty to permit an inspection of such as it does keep, for the purpose of recording transactions, which the law gives the stockholders a right to know.

And when such a statute provides that the books of transfer of stock, and the books containing the names of the stockholders of

[1] Cockburn v Union Bank, 13 La. Ann. 289; People v. Pacific Mail Steamship Co, 3 Abb. Pr. (N. S.) 364; 34 How. Pr. 193.

[2] Williams v. College, etc., R. Co., 45 Ind. 170 (1873).

such company shall be open to the examination of every stockholder for thirty days previous to any election for directors, a stockholder has a right to inspect not only the book containing the names of the stockholders, but to take memoranda or copies of the names. And if an officer, having charge thereof, refuses to permit such memoranda or copies to be made, he incurs the penalty prescribed by the statute for a refusal to allow an inspection of such books by stockholders.[1]

SEC. 107. **Holders of preferred stock.** — It frequently occurs that by virtue of authority conferred upon the corporation or vested in the directors preferred stock may be created and certificates therefor disposed of by the corporation.[2] The stock certificates, issued therefor, usually show that the stockholder is entitled to the application of the net earnings of the road, to the payment of dividends or interest on such stock; and the holders thereof are entitled to the same general rights and privileges, and are subject to the same liabilities as the holders of the original or common stock, which we have already considered.[3] But although the certificates of shares of preferred and guaranteed stock of a corporation contain a clause that the stock is entitled to dividends at a certain rate per annum, out of the net earnings of the company, and that the payment of dividends is guaranteed, the holder of a certificate does not thereby become a creditor of the corporation, and cannot maintain an action at law against the corporation for a failure to declare and pay dividends.[4]

SEC. 108. **When it can be issued; dividends on.** — It is generally received doctrine that preferred shares of stock can only be issued when the power so to do is expressly conferred upon the corpora-

[1] Cotheal v. Brower, 10 Barb. 216; 5 N. Y. 562. See, also, as to a custom of the company in such cases, to allow such transfer to be made without the consent of the board of directors, where the by-laws provided for such consent. Chambersburg Ins. Co. v. Smith, 11 Penn. St. 120.

[2] Green's Brice's Ultra Vires, 145 and notes; Corry v. Londonderry, etc., R. Co., 29 Beav. 263; 30 L. J. Ch. 290; Coates v. Nottingham, etc., R. Co., 30 Beav. 86.

[3] For a construction of certificates of preferred stock, see Bailey v. The Hannibal, etc., R. Co., 1 Dill. (U. S. C. C.) 174; Matthews v. Great Northern, etc., R. Co., 28 L. J. Ch. 375; Coey v. Belfast, etc., R. Co., Ir. Rep., 2 C. L. 112.

[4] Williston v. M. S. & N. J. R. Co., 13 Allen, 400. See, also, Taft v. Hartford, etc., R. Co., 8 R. I. 310.

tion,[1] although it has sometimes been claimed to exist as an incident to the power to borrow money, it being considered as an inducement to loans, and a method of security. This stock has priority over the common stock, and is first entitled to dividends from the profits. There is another distinction sometimes made between preferred and common stock, namely, that in reference to the latter the directors have a large discretion in reference to declaring dividends on the same, and the court will seldom interfere with this discretion unless the abuse is manifest. Whereas, in the former the court will inquire into the affairs of the corporation with greater scrutiny, and require payment of the current profits or net earnings on such stock, according to the terms of the contract, whenever justice and equity may require it.[2] But it is held that payments of interest on preferred stock can only be made out of profits *bona fide* earned; that a corporation has no power to pay such interest in excess of such earnings, and that all contracts for such purposes would be void.[3]

If a power to issue preferred shares exists, it is held that it must be exercised solely for the purpose of obtaining capital.[4]

SEC. 109. **Scrip and preliminary subscriptions.** — Scrip, in the sense used here, is a kind of certificate sometimes issued in England by the projectors of companies, entitling the holder to become a member and stockholder of a future company. "The liability imposed upon the scrip receiver," observes Mr. Brice, "will principally depend upon the engagement he has entered into with the projectors. He may negotiate the scrip, but he will, never-

[1] Green's Brice's Ultra Vires, 145; *Re* National Patent Steam Fuel Co., *ex parte* Worth, 4 Drew, 529; 28 L. J. Ch. 589; Hutton v. Scarborough Cliff Hotel Co., 3 Dr. & Sm. 521.

[2] Bailey v. R. Co., 17 Wall. 96; St. John v. Erie R. Co., 10 Blatchf. 271; affirmed, 22 Wall. 136; Bates v. Androscoggin, etc., R. Co., 49 Me. 491; Hazlehurst v. Savannah, etc., R. Co., 43 Ga. 13; Thompson v. Erie, etc., R. Co., 45 N. Y. 468; Prouty v. Michigan S., etc., R. Co., 1 Hun, 655; McLoughlin v. Detroit, etc., R. Co., 8 Mich. 100; Williston v. Michigan S., etc., R. Co., 13 Allen, 400; Barnard v. Vermont & Massachusetts R. Co., 7 id. 512.

[3] Pittsburg, etc., R. Co. v. Allegheny Co., 63 Penn. St. 126; Lockhart v. Van Alstyne, not reported, Mich. ; Am. L. Reg. (N. S.) 180; Curran v. Arkansas, 15 How. (U. S.) 304.

[4] Herals v. Great Western R. Co., L. R., 3 Ch. 262. See, also, Henry v. Great Northern R. Co., 4 K. & J. 1; 27 L. J. Ch. 1; Corry v. Londonderry, etc., R. Co., 29 Beav. 263; 30 L. J. Ch. 290; Coates v. Nottingham Water-Works Co., 30 Beav. 86. As to the rights of holders in the different kinds of preferred shares, see Matthews v. Great Northern R. Co., 28 L. J. Ch. 375; Coey v. Belfast, etc., R. Co., I. R., 2 C. L. 112.

theless, remain liable, if the company be formed, until the name of the purchaser be entered upon the register."[1] The consideration for the issue of such scrip is usually the obligation of the party receiving it to take shares in the future company.

In this country preliminary subscriptions may generally be made, and in such cases the rights secured thereby become vested in the corporation when formed, as the right to membership thereby pledged is sufficient consideration for such subscription, and the company generally may recover calls on such subscriptions after its incorporation, the same as though they were made after its complete organization. In fact, it is frequently required in organizing, under general statutes, not only that preliminary subscriptions be made, but that a certain percentage of the sum be paid as a condition precedent to the organization, and these subscriptions, if the corporation is finally organized, become binding upon the subscriber, whether scrip is issued therefor or not, and they become a part of the assets of the corporation.[2]

SEC. 110. **Stock defined, etc.** — The term "stock," as applied to joint-stock corporations, is the money or capital invested in the business, and it is usually divided into shares of equal value, held by owners or stockholders, the evidence of which is usually furnished by certificates of the same, signed and authenticated by proper officers of the corporation with the corporate seal attached.

The term "capital stock," as used in the act of incorporation in New Jersey has been defined as the amount contributed or advanced by the stockholders as members of the company, and not to refer to the property of the corporation.[3] And, as we have al-

[1] Green's Brice's Ultra Vires, 148; citing Midland G. W. R. Co. v. Gordon, 16 M. & W. 804; 16 L. J Ex. 166. But see Jackson v. Cocker, 4 Beav. 59.

[2] On this subject see Anderson v. Newark, etc., R. Co., 12 Ind. 376; Johnson v. Wabash, etc., R. Co., 16 id. 389; Heaston v. Cincinnati, etc., R. Co., id. 275; Buffalo, etc., R. Co. v. Dudley, 14 N. Y. 336; Eastern P. R. Co. v. Vaughan, id. 546; Lake Ontario R. Co. v. Mason, 16 id 451; Rensselaer P. R. Co. v. Barton, id. 457; Stanton v. Wilson, 2 Hill, 153; Hamilton, etc., R. Co. v. Rice, 7 Barb. 157; Reformed, etc., Church v. Brown, 29 id. 335; S. C., 4 Abb. Ct. App. Dec. 31; Penobscot, etc., R. Co. v. Dummer, 40 Me. 172; Watkins v. Eames, 9 Cush. 537; People's Ferry Co. v. Balch, 8 Gray, 303; Danbury, etc., R. Co. v. Wilson, 22 Conn. 435; Taggart v. West Maryland R. Co., 24 Md. 563; Griswold v. Peoria Univ., 26 Ill. 41; Johnston v. Ewing Female Univ., 35 id. 518.

[3] State v. Morristown Fire Ins. Assoc., 23 N. J. L. 195.

ready seen, shares of stock of a corporation are personal property.[1] The term "joint-stock" corporation means such a corporation as has for its object a dividend of profits among its stockholders. And such dividends are personal property.[2]

Sec. 111. **Issuing certificates of shares.** — Where a charter provided that the president and directors should cause a certificate to be given to each shareholder, signed by them, and countersigned by the treasurer, certificates issued by the president alone, signed by him and countersigned by the treasurer, without authority of the directors, and without consultation, were held void, and that as the president in issuing such certificates acted without the scope of his authority, the corporation were not liable for his act.[3] But in order to make one an owner of stock in a corporation, it is not usually necessary that a certificate of his shares shall have been issued, or that the fact of ownership should appear on the books of the corporation, but it may be shown by parol.[4] And a certificate issued in the ordinary form of a certificate of stock, but containing a promise in addition thereto on the part of the corporation to pay interest thereon until the happening of a certain event, constitutes the person to whom it is issued a stockholder, and the corporation cannot, by a vote of the stockholders, oblige him to receive their bond instead of money for the interest upon such certificate.[5] If a part of the capital stock remains untaken, the right to issue it is a corporate franchise, and the property thus held is in trust for the benefit of the corporators, and if disposed of, it must be for the benefit of all the stockholders. If the directors disposed of it unequally to corporators, those injured thereby may have an action against the corporation for the damage

[1] Arnold v. Ruggles, 1 R. I. 165.

[2] Tippets v. Walker, 4 Mass. 595.

[3] Holbrook v. Fauquier, etc., Turnp. Co., 3 Cranch (C. C.), 425.

[4] Chaffin v. Cummings, 37 Me. 76. And the making of a certificate and mailing of it to a stockholder was regarded as the issuing of it. Jones v. Terre Haute, etc., R. Co., 17 How. Pr. 529; Agricultural Bank v. Burr, 24 Me 256; Same v. Robinson, id. 275; Ellis v. Essex Merrimack Bridge Co., 2 Pick. 243. If a party was entitled to the certificate it would be the duty of the corporation to issue them, and a refusal so to do would justify a proceeding in chancery to compel it to issue them, and for want of them the stockholder should not be prejudiced. Chester Glass Co. v. Dewey, 16 Mass. 94; Field v. Pierce, 102 id. 253. See, also, Hoagland v. Bell, 36 Barb. 57.

[5] McLaughlin v. Detroit, etc., R. Co., 8 Mich. 100. A corporation having stock not taken may issue certificates therefor, taking in payment its own bonds. Loham v. N. Y., etc., R. Co., 2 Sandf. 39.

sustained. Thus, where a resolution of the directors, carried into effect, provided for the distribution of such stock among all the stockholders who were not in arrears on shares already taken by them, and excluded those who were so in arrears, it was held to be an unlawful imposition on those in arrear, and a violation of the rights of a corporator who was ready and offered to take his portion of the new shares.[1]

SEC. 112. **Certificates unlawfully issued.** — If stock certificates are unlawfully issued, they will be valid in the hands of innocent holders, although the consideration, as between the corporation and the party to whom they are issued, may entirely fail. Thus, where the president of a corporation, in pursuance of an agreement by the directors, issued certificates of certain shares of stock to contractors, upon entering into a contract to build the railroad in which the corporation was interested, and as a consideration therefor, and the action of the president was subsequently approved by the directors, and by a meeting of the stockholders; it was held that though the road was never built, and the stock never paid for, so that the corporation was in equity entitled to have it returned, this did not impair the validity of the stock or the legality of an election of directors chosen by votes given upon the stock so issued.[2]

And where, by statute, the affixing of the treasurer's signature to the certificates of shares of stock is required, this was held to be a ministerial duty, merely, and that it might be performed by him even after the dissolution of the corporation.[3] So certificates of stock are not necessarily invalid because issued at a place outside of the state in which the corporation was organized and has its principal place of business.[4]

A stock certificate, issued by a corporation having the power to issue the same, is a continuing affirmation of the ownership of the

[1] Reese v. Bank of Montgomery Co., 31 Penn. St. 78. But where an act of the legislature authorizes the issue of preferred stock, if it is accepted by the stockholders, it empowers the directors to issue the same, although individual stockholders may oppose it. Curry v. Scott, 54 Penn. St. 270.

[2] Savage v. Ball, 17 N. J. Eq. 142.

[3] Sewall v. Chamberlain, 16 Gray, 581. See, also, as to the right of a stockholder to certificates of shares, Field v. Pierce, 102 Mass. 253; James v. Cincinnati, etc., R. Co., 2 Dis. (O.) 261.

[4] Courtright v. Deeds, 37 Iowa, 503.

specified amount of stock by the person mentioned therein, or his assignee, until it is withdrawn in some manner recognized by law; and a purchaser in good faith has a right to rely thereon, and to claim the benefit of an estoppel in his favor, as against the corporation, in all cases where the original ownor could make such claim.[1] And a purchase from one other than the original holder of the stock, with the usual assignment and power of attorney executed in blank, in an action against the corporation for a refusal to transfer the stock on its books, is not bound to show affirmatively the title of his immediate vendor, and the presumption is that the stock was transferred and the certificates delivered in the usual course of business.[2]

Sec. 113. **Fraud in issuing stock certificates.** — The sale of stock, by the directors of a corporation, at a less rate than the price fixed in the charter, is a fraud upon the stockholders; and the issuing of a bond convertible into stock is the same in effect as the sale of so much stock, and the sale of such a bond is unlawful and void; and stock thus taken is, in the hands of a party with notice, subject to the right of prior subscribers to have it reduced to the charter value of the shares.[3] And the purchaser of stock illegally issued by the directors of a company at less than the charter price may rescind his contract and recover from his vendor, who participated in the illegal issue of the stock, the money paid for the same.[4]

Sec. 114. **Shares and income, character and quality of, as property.** — "A share is a mere ideal thing — it is no portion of matter, it is no portion of space, it is not susceptible of tangible and visible possession actual or constructive. It is not, therefore, a chattel personal susceptible of possession actual or constructive." [5]

Corporations may take and hold real or personal property, but the members are not as such entitled to, or invested with the

[1] Holbrook v. New York Zinc Co., 57 N. Y. 616.

[2] Id.

[3] Sturges v. Stetson, 1 Biss. (U. S. C. C.) 246.

[4] Arnold v. Ruggles, 1 R. I. 165.

[5] Fosdick v. Sturges, 1 Biss. (U. S. C. C.) 255. The word "property" includes stock in corporations; Field v. Montmollin, 5 Bush, 455; and it is the subject of conversion like other property. Kuhn v. McAllister, 1 Utah, 273. And the words "shares" and "stock" are synonymous terms. Harrison v. Vines, 46 Tex. 15.

property thus held. "The interest of each individual shareholder is a share of the net produce of both, when brought into one fund."[1] It is not unusual for statutes to declare the shares and dividends to be personal property; and to be transferable like other personal property.[2] But in the absence of any statutory provision, it would be regarded as such, whether they arise out of real or personal property. On this subject Baron ALDERSON in a case before him observed: "In the first place, there is a corporation to whose management the joint stock of money subscribed by its individual corporators is intrusted. They have power, at their pleasure, of vesting it in real estate, or in personal estate, limited only as to amounts, and of altering from time to time the species of property they may choose to hold; and in order to give them greater facilities and advantages, certain powers are intrusted to the undertakers, by the legislature, and that even before they were constituted a body corporate, of laying down pipes, and thereby occupying land for the purposes of their undertaking. These powers render the use of joint stock by the body corporate more profitable, but they form no part of their joint stock itself; and one decided test is this, that they belong inalienably to the corporation; whereas all joint stock is capable expressly of being sold, exchanged, varied, or disposed of, at the pleasure of the corporate body."[3]

SEC. 115. **Interest of stockholders in corporate property.** — The interest of the shareholder, and the character and quality of his interest, was well stated in the opinion of ROGERS, J., in a case in the supreme court of Pennsylvania. He says: "Money due on bond or note, or other contract, for the detention of chattels, or for torts, is included under the head of title to things in action. Bank shares would seem to be included in that class, as they merely en-

[1] Bradley v. Holdsworth, 3 M. & W. 422; Waltham Bank v. Waltham, 10 Metc. (Mass.) 334; Tippets v. Walker, 4 Mass. 595.

[2] Stat. Geo. 1, chap. 19, § 9; Williams' Law of Personal Prop. 151. See, also, Union Bank of Tenn. v. State, 9 Yerg. 490.

[3] Blight v. Brent, 2 You. & C. (Ex.) 268. See, also, Durkee v. Stringham, 8 Wis. 1; Wordsworth on Joint-stock Companies, 288; Edwards v. Hall, 6 De G. M. & G. 74; 35 Eng. L. & Eq. 433; Wildman v. Wildman, 9 Ves. 174; Kirby v. Potter, 4 id. 751; Planters' Bank v. Leavens, 4 Ala. 753; Denton v. Livingston, 9 Johns. 96.

title the holder to receive on demand a portion of the profits or earnings of the bank, and never in this country have been considered as other than chattels, giving no such interest to the holder as that of a partner in a partnership transaction. I know of no case in which the point has been directly adjudged, but in *Gilpan* v. *Howell*[1] such would seem to be the opinion of the court. In that case so far from treating stock as real estate, or as personal property in possession (as a horse, for example), it is ruled, that when one purchases stock for another, and takes a transfer on the books of the bank in his own name, it is sufficient if he retains so much of the same stock as will enable him to transfer to his principal on demand the whole amount purchased for him, and that it is not necessary that he should retain the identical scrip or shares. Although the bank shares may be said to indicate or represent the portion of interest which the shareholder has in the property of every kind belonging to the company, yet it cannot be said, with any propriety, that he is in the actual possession of the common property of the bank, any more than the owner of a bond or note is in possession of the money of which it is the representative. The only possession the holder has is the certificate, which is merely the evidence of his interest, as title deeds are of title to lands, but not of possession. That stock cannot be considered in the light of a thing in possession, and personal estate, as distinguished from a *chose in action*, would also appear from this, that at common law it could not be taken in execution and sold for debt." [2]

Sec. 116. **How stockholder's interest is conveyed.** — According to the recognized principles of the law, personal chattels are material things capable of actual and manual possession, such as money, jewels, corn, etc. These are usually transferred on a sale by actual delivery of the material thing. But a chose in action is a right of action merely; as money due on a note or other contract or damages for a wrong.[3] The learned Chief-Justice Shaw has clearly illustrated this distinction of personal property, into

[1] 5 Penn. St. 57.

[2] Slaymaker v. Gettysburgh Bank., 10 Penn. St. 373. See, also, Humble v. Mitchell, 11 A. & E. 205; Duncuft v. Albrecht, 12 Sim. 189; Hargreaves v. Parsons, 13 M. & W. 561.

[3] 2 Kent's Com. 285; Long on Sales, 2.

chattels and merely choses in action, in the following language: "According to the modern decisions courts of law recognize the assignment of a *chose in action*, so far as to vest an equitable interest in the assignee, and authorize him to bring an action in the name of the assignor and recover a judgment for his own benefit. But in order to constitute such an assignment two things must concur: first the party holding the chose in action must, by some significant act, express his intention that the assignee shall have the debt or right in question, and, according to the nature and circumstances of the case, deliver to the assignee, or to some person for his use, the security, if there be one, bond, deed, note, or written agreement, upon which the debt or chose in action arises; and secondly, the transfer shall be of the whole or entire debt or obligation, in which the chose in action consists, and, as far as practicable, place the assignee in the place of the assignor, so as to enable the assignee to recover the full debt due, and to give a good and valid discharge to the party liable. The transfer of a *chose in action* bears an analogy, in some respects, to the transfer of personal property; there can be no manual extradition of a *chose in action*, as there must be of personal property to constitute a lien; but there must be that which is similar, a delivery of the note, certificate, or other document, if there is any, which constitutes the chose in action, to the assignee, with full power to exercise every species of dominion over it, and the renunciation of any power over it, on the part of the assignor. The intention is, as far as the nature of the case will admit, to substitute the assignee in the place of the assignor as the owner."[1]

SEC. 117. **Character and quality of certificates.** — Certificates of stock are not securities for money, nor are they, as we have seen, possessed of the qualities of commercial obligations, and, therefore, subject to the rules and principles of the law merchant, relating to negotiable notes or bills of exchange.[2] They are merely the muniments of title, and evidence of the holder's right and title to given shares in the property and franchises of the corpora-

[1] Palmer v. Merrill, 6 Cush. 282.

[2] Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 600; New York, etc., R. Co. v. Schuyler, 3 E. P. Smith (17 N. Y.), 592.

tion, of which such shares constitute him a member.[1] But the delivery of the certificates with a proper assignment of the same, on a sale thereof, usually renders the sale complete.[2] They are in the nature of a *chose in action*, and like a note or bill of exchange they may be transferred by assignment and delivery, subject only to such reasonable rules as may be prescribed therefor by the corporation, for mutual advantage and protection; the assignee being substituted thereby in the place of the assignor and entitled to all his rights and privileges, conferred by the certificate. The assignee, however, must take the certificate subject to all the equities which the corporation may have against the same. But the holder may transfer his interest to a purchaser, though the transfer be not made as required by the rules or by-laws of the corporation.[3]

In such cases the assignee takes the stock subject to all equities of the corporation and of every other person.[4] It is clear that a certificate of stock transferred in blank is not a negotiable instrument. Each of these certificates is expressed on its face to be transferable only on the books of the company by the holder thereof, in person, or by a conveyance in writing recorded in said books, and a surrender of this certificate. No commercial usage can give such an instrument the attributes of negotiable paper. However many intermediate hands it may pass through, whoever would obtain a new certificate in his own name, must fill out the blanks, so as to derive title to himself directly from the last recorded stockholder, who is the only recognized and legal owner of the shares.[5]

[1] Mechanics' Bank v. New York, etc., R. Co., 14 N. Y. 627; New York, etc., R. Co. v. Schuyler, 17 id. 592. See, also, Hutchins v. State Bank, 12 Metc. (Mass.) 421; Slaymaker v. Gettysburgh Bank, 10 Penn. St. 373.

[2] Howe v. Starkweather, 17 Mass. 243; Sargent v. Franklin Ins. Co., 8 Pick. 98; United States v. Vaughan, 3 Binn. 394; Munn v. Barnum, 24 Barb. 283; Noyes v. Spaulding, 27 Vt. 420; Orr v. Bigelow, 20 Barb. 21; 14 N. Y. 556.

[3] Gilbert v. Manchester Iron Man. Co., 11 Wend. 627; Marblehead Social Ins. Co. v. Quiner, 10 Mass. 476; Sargent v. Essex Marine R. Co., 9 Pick. 202.

And where the charter required a transfer on the books of the corporation, it is under no obligation to permit a transfer to be made by a person claiming to be an assignee, where the assignment and power of attorney is executed to some person in *blank*. Dunn v. Commercial Bank, 11 Barb. 580. See, also, Gilbert v. Manchester Iron Co., 11 Wend. 627.

[4] Stebbins v. Phœnix Fire Ins. Co., 3 Paige's Ch. 350; Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 599; New York R. Co. v. Schuyler, 34 id. 30.

[5] Greenwood v. Lake Shore R. Co., 10 Gray, 373.

SEC. 118. **Transfer of shares; how made.** — We have already alluded to the right of the holder of shares of capital stock to sell and transfer the same, as any other personal property may be sold and transferred, and shown that any restraint upon such right would be unconstitutional and void. But it is usually provided by the articles of association or by-laws, that transfers of shares of stock shall be recorded on the proper books of the company, kept for that purpose. And where a deed of settlement of a banking company provided that no person should be entitled to become a transferee of a share, unless he was approved by the directors, it was held that they must exercise their power reasonably.[1] And the better opinion now seems to be, that clauses in the acts of, or articles of incorporation, providing that stock shall only be transferred on the books of the company, are only for the security of the corporation, and do not prevent the title from passing, as between the assignor to the assignee of the stock.[2] But in such a case, a purchaser without a transfer on the books of the company acquires only the equitable rights of the assignor;[3] and the assignee would take the transfer of the same, subject to the obligations of the assignor to the company and all liens which they may have on the stock, and all rights of the company to any assessments thereon, and all equities of the corporation or any other person.[4]

A power to regulate the transfer of stock by the corporation is sufficient to authorize a by-law that the stock shall only be transferable at the bank of the corporation and on its books; and in that case, until such transfer the purchaser could take only an equitable title, subject to any claims, or liens of the corporation, by virtue of its charter or by-laws, or by valid usage or agreement.[5] In New York, where a stockholder

[1] Robinson v. Chartered Bank, L. R., 1 Eq. 32.

[2] Per GOLDWAITHE, J., in Duke v. Cahawba Nav. Co., 10 Ala. 82. See, also, Chambersburg Ins. Co v. Smith, 11 Penn. St. 120; Chouteau Spring Co. v. Harris, 20 Mo. 382; Bargate v. Shortridge, 5 H. L. Cas. 297; 31 Eng. L. & Eq. 44; Eames v. Wheeler, 19 Pick. 442; Stone v. Hackett, 12 Gray, 227.

[3] Mount Holly Turnp. Co. v. Ferree, 17 N. J. Eq. 117.

[4] Gilbert v. Manchester Iron Manuf. Co., 11 Wend. 627; Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 599: New York, etc., R. Co. v. Schuyler, 34 id. 30; Geyer v. Western Ins. Co., 3 Pittsb. (Penn.) 41.

[5] Id. See, also, Lockwood v. Mechanics' National Bank, 9 R. I. 308, where the doctrine is maintained. See, also, as to the validity of the custom of the transfer in such cases by the secretary, Chambersburg Ins. Co. v. Smith, 11

of a corporation transferred his stock in good faith, but did not cause the transfer to be made upon the books of the company, as required by the statute of incorporation; and the company had no transfer book; and the certificate of the transfer required to be filed in the town clerk's office was not signed by the officers of the company as required by its by-laws, but was recorded by the direction of the company, who acquiesced in the same and recognized the transferee as the owner of the stock, it was held that the original stockholder was not liable to pay calls upon the stock after the transfer.[1] But in Massachusetts, it has been held that shares in a bank, whose charter provides that they shall "be transferable only at its banking-house and on its books," cannot be effectually transferred (as against a creditor of the vendor who attaches them without notice of any transfer), by a delivery of the certificates thereof, and a blank power of attorney from the vendor to the vendee, to transfer the same on the books of the company, even if notice of such transfer be given to the bank before the attachment is executed.[2]

Mr. Brice observes: "The capital stock is usually divided into portions styled shares. Such shares may be of one description only, being of one and the same amount, and conferring on all holders thereof the same rights, privileges and liabilities; or they may be of various classes and with various denominations, the possessors of shares of one class having rights and being under liabilities differing widely from those belonging to the shares of other classes.[3] The shares of capital stock are now regarded as personal property;[4] and dividends when made on such shares should be made on all the stock, so that each holder shall receive

Penn. St. 120. As to what constitutes a legal transfer of corporate stock as against one having a prior equity, and as to who is a *bona fide* holder of stock, see Weaver v. Barden, 49 N. Y. 286.

[1] Isham v. Buckingham, 49 N. Y. 216.

[2] Fisher v. Essex Bank, 5 Gray, 373.

[3] Green's Brice's Ultra Vires, 141.

[4] Gilpin v. Howell, 5 Penn. St. 41; Slaymaker v. Gettysburgh Bank, 10 id. 373; Waltham v. Waltham, 10 Metc. (Mass.) 334; Hutchins v. State Bank, 12 id. 421; Wheelock v. Moulton, 15 Vt. 519; Isham v. Bennington Iron Works Co., 19 id. 230; Arnold v. Ruggles, 1 R. I. 165; Denton v. Livingston, 9 Johns. 96; Johns v. Johns, 1 Ohio St. 350; State v. Franklin Bank, 10 id. 91; Heart v. State Bank, 2 Dev. Eq. 111; Planters', etc., Bank v. Leavens, 4 Ala. 753; Union Bank v. State, 9 Yerg. 440; Brightwell v. Mallory, 10 id. 196.

his proportionate share; and directors have no authority to declare a dividend on any other principle.[1] In reference to certificates of stock and their character and quality the supreme court of the United States say: "Stock certificates of all kinds have been construed in a way to invite the confidence of business men, so that they have become the basis of commercial transactions in all large cities of the country, and are sold in open market the same as other securities. Although neither in form nor character negotiable paper, they approximate to it as nearly as practicable."[2]

SEC. 119. **Effect of assignment and delivery.** — The practice of transferring such shares by delivery of the certificates with a blank assignment and power of attorney is sanctioned by the authorities; and the purchaser acquires a perfect title thereto as against the former holder, from whom he receives it. As against the corporation he has a right of action against the corporation for its value if they refuse to transfer it on a demand being made therefor; but if they have a lien upon the same, then the purchaser takes it subject to such lien. But the certificate of stock of a corporation has *none* of the qualities of commercial or negotiable instruments, and as a general rule, the purchaser acquires no better title than the assignor had.[3] And it has been held that if it is transferred merely by delivery, with the blank assignment and power of attorney above referred to, but without any transfer on the proper books of the company, where such is required, a subsequent *bona fide* purchaser from the assignor, in whose name it stands upon the books, acquires a good title thereto, and a transfer made on such books, with the permission of the

[1] Jones v. Terre Haute, etc., R. Co., 29 Barb. 353; S. C., 57 N. Y. 196; Ryder v. Alton, etc., R. Co., 13 Ill. 516; Atlantic, etc., R. Co. v. Commonwealth, 3 Brewst. (Penn.) 366; State v. Baltimore, etc., R. Co., 6 Gill, 363; Luling v. Atlantic Mut. Ins. Co., 45 Barb. 510.

[2] Bank v. Lanier, 11 Wall. 369. See, also, Leitch v. Wells, 48 N. Y. 585; Salisbury Mills v. Townsend, 109 Mass. 115.

[3] Holbrook v. New Jersey Zinc Co., 57 N. Y. 616; Weaver v. Barden, 3 Lans. 338; S. C., 49 N. Y. 286; Mechanics' Bank v. New York, etc., R. Co., 13 id. 599; Dunn v. Commercial Bank, 11 Barb. 580; McNeil v. Tenth Nat. Bank, 46 N. Y. 325; S. C., 55 Barb. 50; Bridgeport Bank v. New York, etc., R. Co., 30 Conn. 270; Broadway Bank v. McElrath, 13 N. J. Eq. 24; Mt. Holly, etc., T. Co. v. Ferree, 17 id. 117.

company, to such subsequent purchaser, cuts off all rights and equities of the holder of the stock certificates to the stock itself.[1]

[1] People v. Elmore, 35 Cal. 653; Naglee v. Pacific, etc., Wharf Co., 20 id. 529. And, until regularly transferred, it may be attached as the property of the assignor by a creditor having no knowledge of the assignment; Skowegan Bank v. Cutler, 49 Me. 315; but a creditor having knowledge of the equitable transfer cannot hold the stock upon attachment, although a transfer upon the company's books has not been made. Colt v. Ives, 31 Conn. 25; Broadway Bank v. McElrath, 13 N. J. Eq. 24. The rule is, that a *bona fide* purchaser of stock which has not been transferred on the books is nevertheless entitled to hold the same against all the world against a *bona fide* purchaser without notice. Parrot v. Byers, 40 Cal. 614.

The buyer of stock, as between him and the seller, acquires the right to demand a transfer upon the books of the company; Webster v. Upton, 91 U. S. 65; and for a refusal of such demand the company is liable as for a conversion of the stock. Bank of America v. McNiel, 10 Bush, 54.

The company may refuse to make the transfer for a good and sufficient reason, but by its refusal, it assumes a perilous position, as the question as to whether the reason is sufficient or not is for the court. Comeau v. Guild Farm Oil Co., 3 Daly, 218; State v. McIver, 2 S. C. 25; State v. Smith, 48 Vt. 266.

The measure of damages in such cases is the value of the stock at the time of demand, together with any dividends which had accrued at that time. Baltimore, etc., R. R. Co. v. Lowell, 35 Md. 238. But the charter of a company may invest the directors with a discretion relative to transfers, and if so, the company cannot be made liable for their refusal to permit a transfer, unless it is proved that they acted capriciously and unfairly. *In re* Gresham Life Assurance Co., L. R., 8 Ch. App. 446.

In addition to any discretion expressly conferred on them by the articles of association, the directors of a company have vested in them a discretion to refuse to register a transfer of shares, in cases where the proposed transfer would be contrary to the interests of the shareholders. Such discretion is, however, not arbitrary, but must be exercised in a just and reasonable manner. Where, therefore, a company was in difficulties, and a transfer was made to a person whose address was incorrectly given in the transfer, and who could not be found, it was held that the directors were justified in refusing to register the transfer; and the court refused, after a winding-up order had been made, to rectify the register by inserting the name of the transferee, it appearing that the transfer was made for the purpose of avoiding liability, and that the transferee was not a person of means. *Re* Smith, L. R., 6 Eq. Cas. 238. A transfer may be refused, when the stock has been previously attached as the property of the vendor. State Ins. Co. v. Saxe, 2 Tenn. Ch. 507; Williams v. Mechanics' Bank, 5 Blatchf. 59. But it cannot sustain its refusal by proof that after the assignment of the shares to the plaintiff was made and delivered, but before his demand for a transfer, the company was served with notice of attachment of the share, as property of the assignor. Comeau v. Guild Farm Oil Co., *ante*. But see State Ins. Co. v. Saxe, *ante*, where it was held that the company was justified in a refusal to transfer after a levy of execution had been made, in a case involving similar facts.

A corporation should not be compelled by *mandamus* to make transfers upon its books of shares of its stock to a purchaser thereof at a sale upon attachment, where the same stock has been transferred regularly and new certificates issued to a person presenting a *prima facie* title, before the issue of the attachment. State v. Warren Foundry, etc., Co., 32 N. J. L. 439.

A mere notice to the officers of the company, from parties having a beneficial interest in the stock sought to be transferred, that the right of the party having the legal title to make the

SEC. 120. **Refusal of the corporation to transfer on its books.** — Where the provisions of the statute, articles of association, or by-laws, require that a transfer of the certificates of stock should be made or recorded on the books of the company, a refusal of the company, or officer, or agent, having charge of such books, to make the requisite entry or record of a transfer on proper application, and the furnishing of the necessary evidence for this purpose, without a good reason therefor, would render the corporation liable for all damages sustained by reason of such refusal. And a certificate of stock in a corporation, with a power of attorney authorizing the transfer of the stock to any person, is *prima facie* evidence of equitable ownership in the holder, and renders the stock transferable by the delivery of the certificate; and in such a case, when the party, in whose hands the certificate is found, is shown to be the holder for value, and without notice of any intervening equity, his title as owner cannot be impeached.[1] And if the corporation has no secretary or clerk, and the president has charge of its books, a right to have a transfer exists,

transfer is questioned and will be contested, will not justify the officers in delaying longer than to give a reasonable time to the claimants to institute legal proceedings. State v. McIver, 2 S. C. 25. Nor can the company lawfully withhold a transfer because, in their judgment, the motives and purposes of the party are improper, or because the transfer may affect injuriously the interests of the company. State v. McIver, 2 S. C. 25; State v. Smith, 48 Vt. 266.

The stock of a corporation in Massachusetts is so within the power of its courts, having all proper parties before them, that their decree will operate upon the title, and will be a valid transfer of the stock to a third person, notwithstanding the certificate therefor is outstanding. And the corporation will not be required to recognize the title of one who, years afterward, produces the certificate, with the signature of the former owner to a blank assignment, although he proves that, since such judicial proceedings, he has advanced money on the faith of the certificate. Sprague v. Cacheco Manuf. Co., 10 Blatchf. 173.

If an attachment has been levied and notified to the company, and it has transferred the shares to a purchaser at sheriff's sale, before demand by a prior assignee for a transfer to him, the company is protected. Williams v. Mechanics' Bank, 5 Blatchf. (U. S. C. C.) 59.

The purchaser under an attachment sale takes the same title that the judgment debtor had to the shares when the attachment was levied, and cannot compel a transfer where the debtor himself would not have been entitled to compel it. Geyer v. Western Ins. Co., 3 Pittsb. (Penn.) 41.

The corporation is entitled to refuse a demand of an equitable owner of shares for a transfer, where he does not offer to surrender the certificates, but they are known to the officers of the company to be in possession of another person claiming to be the lawful owner. National Bank v. Lake Shore, etc., Ry. Co., 21 Ohio St. 221.

[1] Mount Holly Turnp. Co. v. Ferree, 17 N. J. Eq. 117.

and the demand therefor may be made on the president. And where the charter of a corporation provides that shares shall be transferable, in the manner prescribed by the by-laws of the corporation, and no by-laws are made, but the certificates recite that the stock is transferable only on the books of the company, on surrender of the certificate, the officers of the company and not the assignee of the stock should transfer the stock on the books.[1]

[1] Green Mt. Turnp. Co. v. Bulla, 45 Ind. 1. When a court of last resort, after a fair *bona fide* contest by the corporation, has ordered stock to be transferred to a purchaser at a sheriff's sale, the corporation is liable to the holder of the certificate of the stock, who took no steps to protect himself. Friedlander v. Slaughter House Co., 31 La. Ann. 523.

In Tennessee it was held by a divided court that the holder of certificates of stock, transferred to him in good faith, either absolutely or as collateral security, possesses a valid title as against the creditors of the assignor, who have fixed no liens on it previous to the assignment, although no transfer has been made on the books of the corporation, or no notice of the assignment given to it. Cornick v. Richards, 3 Lea (Tenn.), 1.

In Missouri it is held that in the absence of a legislative enactment restricting the transfer of stock to any particular mode, *the transfer is complete on delivery of the certificate with power to transfer, and payment of the purchase-money*, not only between vendor and vendee, but when the corporation has unjustifiably refused to make the transfer on its books against a creditor of the vendor, who, without notice of the transfer, attaches the stock. Merchants' Bank v. Richards, 6 Mo. App. 454.

In an Ohio case it appeared that in 1854 a railroad company issued to V. certificates of stock, declaring on their face that the stock was transferable on the company's books on surrender. Soon afterward V. sold the stock to F., delivering to F. the certificates with blank powers of attorney to enable him to have the stock transferred. The certificates were mislaid by F., and were not discovered until 1871. In 1863, on application of V., the directors issued to B., to whom V. assumed to sell the stock, new certificates, believing the original ones to have been lost by V. On the ground of such issuance, the company refused an application of F.'s administrators for a transfer of the stock to their names, and for an account of the dividends. The by-laws provided that no new certificates should be issued in place of any certificate previously issued, until its surrender and cancellation; also that certificates might be issued on the special order of the board of directors, in place of certificates lost or destroyed, on proof of such loss or destruction, and on receiving security to indemnify the company against loss consequent upon the issuance of such new certificates. It was held:

1. That the company was liable to replace the stock to which F. was entitled, or to account for its value.

2. That this liability to F. was not affected by the by-law enabling persons who had lost certificates to obtain new ones.

3. That the company was not liable for the dividends paid on the stock before it had notice of the transfer of the certificates to F.

4. That until the transfer of the stock to the holders of the original certificate was refused, or they had notice of the transfer of the stock to other parties, the statute of limitations did not begin to run. Cleveland & Mahoning R. R. Co. v. Robbins, 35 Ohio St. 483.

Transferees of stock which had been improperly issued, on asking to have it transferred to them on the books, were refused, but were told that they might return it and take certain securities, given as collateral to the note of the original purchaser, and the stock was afterward dealt

Although certificates of stock do not possess the qualities of commercial or negotiable paper, and even a *bona fide* assignee will take them subject to all the equities which existed against

with, and some of it changed hands on that understanding. The assets of the company afterward passed into the hands of one who was not a *bona fide* purchaser, who claimed the securities as part thereof. It was held that the transferees could file a bill to obtain the securities on giving up their stock. Snow v. Weber, 39 Mich. 143.

The purchaser at a sheriff's sale on execution, of stock in a corporation whose charter gave it a pre-emption right to its stock, filed a bill in equity against the corporation to compel a transfer of the purchased stock without first demanding such transfer as such pre-emption, did not apply to a sheriff's sale on execution. This was held to afford no reason for dismissing the bill. Barrows v. National Rubber Co., 12 R. I. 173.

In a New York case it appeared that C.'s husband, without consideration, executed in blank an assignment and power of attorney indorsed on a certificate of shares of stock of a manufacturing corporation and delivered the same to her. He afterward, for a valuable consideration, executed an assignment of the stock to B , and caused a transfer to be made to B. on the corporation's books, B., who was an officer thereof, knowing of the assignment to C. By the terms of the certificate the stock was only transferable upon the books on surrender of the certificate. The court held that it being the corporation's duty to resist any transfer without such surrender, the transfer to B. was no valid excuse for the corporation's refusing C.'s demand for a transfer. The fact that the assignment to C. was without consideration was immaterial. Such demand need not be made by the one whose name was inserted as attorney. Equity will compel a transfer to the owner of shares of stock on the books of the corporation, if a recovery of damages for a refusal to transfer would furnish an inadequate compensation. Cushman v. Thayer Manuf. Jewelry Co., 76 N Y. 365.

In Webb v. Graniteville Manuf. Co., 11 S. C. 396, certain stock stood on the books of a corporation in the names of two persons, "executors of A." It was then transferred on the books to "B., guardian," and a certificate issued in B.'s name. B. was the guardian of the minor children of A. B. indorsed the certificate and intrusted it to C., his attorney. C., by a petition in B.'s name, procured an order from a circuit judge for the sale of the stock and reinvestment of the money. C. then hypothecated the stock to a bank for money for his own use. C. failed to redeem, and the stock was sold, the bank purchasing and afterward transferring it to its president, E., also president of the corporation, and to F. In an action by the wards, held, that the books of the corporation, the certificate of stock, and order of the judge were sufficient to put E. on inquiry, and charge him with a knowledge of the trust and conversion ; that his knowledge in the matter was the knowledge of the corporation of which he was president, and that the corporation, as well as B., the guardian, was liable.

In Fraser v. Charleston, 11 S. C. 486, a legal owner of a certificate of city stock, transferable by its terms only at the city treasurer's office, by appearance in person or by attorney, indorsed the certificate in blank, and delivered it to another person, who hypothecated it to a bank. The owner died, and the certificate, by virtue of a transfer written over his name by the cashier, was transferred to the bank on the books of the city treasurer. It was held that the indorsement and delivery was an equitable assignment, and the transfer proper ; and that the terms of the certificate as to transfer were to protect the corporation itself and purchasers without notice.

In Case v. Citizens' Bank, 100 U. S. 446, A., in order to secure the payment of his note to B., pledged to the latter certain shares of the capital stock of a national bank in Louisiana, with authority to sell them in default of such payment. Default having been made B. sold them, and in March, 1873, applied to the cashier of the bank to have them transferred on its books. That officer refused to allow

the assignor;[1] still, unless the right to transfer on the books of the company should be prohibited by the contract of subscription, or the constating instruments, the corporation could not refuse to permit such transfer; and in case of such refusal, the corporation would be liable for all damages sustained thereby. In a recent case where an action was brought against a bank to recover damages for its refusal to permit a transfer of shares of stock on its books, the facts were that two certificates had been issued to one Culver; that these certificates stated on their face that the stock was transferable on the books of the bank only, and on the surrender of the certificates; that this limitation was in accordance with the provisions of a by-law; that Culver pledged said stock to the bank as security, giving it a power of attorney authorizing it to sell the same; that under this power fifty shares were sold by the bank; that Culver was allowed to retain the two certificates of said shares; that he sold the shares and assigned the certificates, and gave the usual power to the assignee (Lanner), authorizing him to transfer the stocks on the books of the bank; and that the assignee bought the stock in good faith. The supreme court of the United States, on these facts, held that the assignee was entitled to recover.[2]

In relation to such certificates they say: "Although neither in form or character negotiable paper, they approximate to it as near as practicable. If we assume that the certificates in question are not different from those in general use by corporations, and the assumption is a safe one, it is easy to see why investments of this

the transfer on the ground that A. was indebted to the bank. Before the transfer could be enforced the bank failed, and C. was appointed a receiver, against whom B., February 24, 1876, brought an action to recover damages for the loss sustained by him. It did not appear that the bank ever adopted any by-law providing for a lien on the shares of a stockholder indebted to it, or that A.'s debt to it had been contracted before his stock was pledged to B. Held:

1. That the action was not prescribed by the limitation of one year.

2. That the cashier having been intrusted by the directors of the bank with the transfers of stock, his refusal to permit the transfer was the refusal of the bank.

3. That, judgment having been rendered, the court below had power to order C. to pay the claim, or certify it to the comptroller. Case v. Citizens' Bank, 100 U. S. 446.

[1] New York R. Co. v. Schuyler, 17 N. Y. 592; Anderson v. Nicholas, 28 id. 600; New York R. Co. v. Schuyler, 34 id. 30.

[2] First National Bank v. Lanier, 11 Wall. 369.

character are sought after and relied upon. No better form could be adopted to assure the purchaser that he can buy with safety. He is told, under the seal of the corporation, that the shareholder is entitled to so much stock, which can be transferred on the books of the corporation, in person or by attorney, when the certificates are surrendered, but not otherwise. This is a notification to all persons interested to know, that whoever in good faith buys the stock, and produces to the corporation the certificates assigned with power to transfer, is entitled to have the stock transferred to him. And the notification goes further, for it assures the holder that the corporation will not transfer the stock to any one not in possession of the certificates."[1]

SEC. 121. **Contracts for the transfer of shares.** — Where an owner of shares contracts to convey or transfer the same at a future time, on certain conditions, the same rules would be applicable as in other contracts relating to personal property. But in case of a contract to transfer, where the party so contracting, at the time, has not such shares, but expects to purchase the same at some future time in the market, for the purpose of carrying out his contract, it has been the subject of contrary judicial opinions whether such contracts were legal. It was intimated, at least, by Lord TENTERDEN, in *Ryan* v. *Lewis*,[2] that such contracts were illegal. But this is not regarded, at this time, as sound law, how-

[1] Id. Where a trustee under a will had a certificate issued to him as trustee, and he was afterward removed from his office as trustee, and the court removing him ordered the master in chancery to assign the trust property to a new trustee, which was done, and the corporation issued a new certificate to the new trustee, and the plaintiff in good faith, having no notice of the proceedings, lent money to a holder of the old certificates, which had a transfer on it signed in blank by the old trustee, and he filled up the blank and demanded a transfer to him and a new certificate, it was held that he could not maintain an action against the corporation. A curious case was recently determined in the United States circuit court (Mass.), by SHEPLEY, J., in which it appeared, that a party borrowed money of a bank and gave as collateral security a certificate of stock in his name, which he had fraudulently altered from two to two hundred shares. The loan was repaid and the bank returned the certificate, which had a transfer on it in blank, signed in blank by the cashier. The holder then again borrowed money of the plaintiff, and gave the same certificate, thus indorsed to him, as collateral security. The court held that the bank, by indorsing the certificate, warranted the genuineness of it. Mathews v. Massachusetts Bank, 9 Am. L. Rev. 164.

[2] Ry. & M. 386.

ever good sense or good morality it may seem to be.[1] Contracts of this character are now regarded as valid, and can be enforced by action.[2]

Sec. 122. **Liens of the corporation on stock.** — It may be observed that the company would not, in the absence of some express provision of the law of its constitution or other lawful regulations, have any lien on the shares of its stockholders for amounts due thereon, or other indebtedness to the company; but it is usually provided, in such law or regulations, that it shall have such lien for any balance on such stock which may be due or will become due thereon to the corporation.[3] The stockholders of the corporation and assignees of stock would be bound to take notice of such a provision. The rights of the corporation in this respect, as we have seen, are usually secured by a provision of its by laws or articles of association, requiring a transfer of the stock to be made on the books of the company, in order to be valid, at least, as between the owners and the company.[4] Such a provision is per-

[1] 1 Redf. on Rail., §§ 33–4.

[2] On this question, Isham, J., in Noyes v. Spalding, 27 Vt. 420, observes: "Contracts for the sale of stock of this character on time are valid at common law, and can be enforced by action. The statute 7 Geo. 2, chap. 8, made perpetual by 10 Geo. 2, chap. 8, has rendered some contracts of that character illegal. They are rendered void, so far as the public stock of that country are concerned, when the seller had no stock at the time of making the contract, and none that was ever intended to be transferred by the parties, but their intention was to pay the difference merely that may exist between the market value of the stock at the time of the transfer, and the price agreed to be paid. Such contracts are rendered void by that statute, and are treated as wagering contracts; the seller virtually betting that the stock will fall, the buyer that it will rise. Chitty on Bills, 112, note *w*. It has been held that railroad stock is not within the act. Hewitt v. Price, 4 M. & G. 355; S. C., 3 Railw. C. 175; Fisher v. Price, 11 Beav. 194. In the case of Mortimer v. McCallan, 6 M. & W. 70, Lord Abinger observed 'that the act was made for the purpose of preventing what is declared to be illegal trafficking in the funds by selling fictitious stock merely by way of differences; but it was never intended to affect *bona fide* sales of stock.' Elsworth v. Cole, 2 M. & W. 31; 2 Kent's Com. 468, note *b*. In the case of Grizebood v. Blane, 20 Eng. L. & Eq. 290, it was held that a tolerable contract for the sale of railroad shares, where no transfer is intended, but merely 'differences,' amounting to the rise or fall of the market, is gaming within the 8 and 9 Vict., chap. 109, § 18; S. C., 11 Com. Bench, 538."

[3] Massachusetts Iron Co. v. Hooper, 7 Cush. 183; Heart v. State Bank, 2 Div. Ch. 111; Sargeant v. Franklin Ins. Co., 8 Pick. 90.

[4] Fisher v. Essex Bank, 5 Gray (Mass.), 373; Northrop v. Newtown Turnpike Co., 3 Conn. 544; Guyer v. Western Ins. Co., 3 Pittsb. (Penn.) 41; Bryon v. Carter, 22 La. Ann. 98; *In re* Stockton Iron Co., L. R., 2 Ch. Div. 101; *In re* General Exchange Bank, L. R., 6 Ch. App. 818; Mechanics' Bank v. Merchants' Bank, 45 Mo. 513; German Security Bank v. Jefferson, 10 Bush, 326; Matter of Bigelow, 2

haps usually intended to secure the corporation any sum due to it by the stockholder, but this, as we have noticed, does not prevent a transfer of the legal rights or equitable interests of the holder.[1] It has been held that a lien on shares held by the company, by virtue of such provisions, extends to and embraces dividends;[2] although it has also been held, in this country, that such a provision, giving a bank a lien upon the stock of a shareholder for debts due the bank, does not, by implication, give a lien upon dividends accruing after the death of the shareholder.[3] And a corporation, by assenting to an assignment made by a stockholder, for the benefit of all his creditors, "with no other preference than is or may be authorized by law," does not lose its lawful lien on the stock for debts due by the assignor to the corporation.[4]

SEC. 123. **Company may refuse to transfer, when.** — Where a company has a lien on the stock standing upon its books in the name of a judgment debtor, and such stock is sold under an execution against the debtor, there is no obligation of the company to

Benedict, 469. But a corporation may waive its right to insist upon this lien, or by its acts may estop itself from insisting upon it. Thus, in *In re* Northern, etc., Tea Co., L. R., 10 Eq. Cas. 458, the articles of association of a company provided that the company should have a primary lien on the debentures of any member of the company who might be either absolutely or contingently indebted to the company for any amount or on any account, and that the directors might, after any such debt became absolutely payable, sell and transfer any debenture of the member so indebted or liable. The holder of certain debentures, who was also a shareholder, transferred his debentures in August, 1865, and the transferees were registered as the proprietors of the debentures, and received certificates to that effect from the company. In 1866 and 1867, calls were made on the shares held by the transferrer, which were unpaid. In December, 1867, the company fell into difficulties, and applied to the transferee of the debentures to renew them for a period of three years. Held, that the company had precluded themselves by their conduct from setting up their lien for unpaid calls as against the transferees. In another English case the statute provided that no shareholder shall be entitled to transfer any share after any call has been made in respect thereof until he shall have paid such call, nor until he shall have paid all calls for the time being due on every share held by him, was held to apply only to the transfer of shares on which a call can be and has been made, and not to shares on which all the calls have been paid; and the company is therefore bound to register a transfer of stock, although the transferrer be the holder of other shares on which there are unpaid calls. Hubersty v. Manchester, etc., Ry. Co., L. R., 2. Q. B. 471.

[1] Marlborough Manuf. Co. v. Smith, 2 Conn. 579; Same v. Same, 5 id. 247; Farmers' Bank v. Iglehart, 6 Gill, 50; Stebbins v. Phœnix Ins. Co., 3 Paige, 350; Union Bank v. Laird, 2 Wheat. 390; Black v. Zacharie, 3 How. 513; Arnold v. Suffolk Bank, 27 Barb. 424.

[2] Hagne v. Dandeson, 2 Exch. 741.

[3] Brent v. Bank, 2 Cranch (C. C.), 517.

[4] Dobbins v. Walton, 37 Ga. 611.

transfer the same to the purchaser, except upon the payment by the latter of the amount secured by the lien.[1] So, where there was a provision in the charter declaring stock personal property, and authorizing the board of directors to make rules and regulations concerning the transfer of it, subject to the general law of the State, and the board of directors adopted a rule prohibiting the transfer of stock until all the debts due by the owner of the same to the corporation were paid, this was held to be valid, although inconsistent with a general law of the state relating to the transfer of property, and that a transfer contrary to such a rule, although good against the assignor, would not be good as against the corporation, for either a debt due or to become due from him, either as principal or surety.[2] But, where a person, owning shares in a bank, transferred them to another, and the bank issued a new certificate to the transferee, making the shares in the new certificates "transferable after the holder pays all his liabilities to said bank," this was held to be a waiver of the lien of the bank upon the shares thus transferred, for amounts due or to become due from the assignor.[3] And, where a corporation had by its charter a lien upon the shares of a stockholder for a debt due to it, and the stockholder caused his stock to be transferred on the books of the company, which was the only manner in which it could be transferred, to a fictitious name, which was known to the officers of the corporations and the original owner afterward caused the stock to be transferred to another person, by a person who claimed or was represented to be the holder, as security for an antecedent debt due from the original owner to him, but no money was paid on the transfer, it was held that the lien of the corporation upon the stock for a debt due from the original owner was not lost by said transfers.[4]

Sec. 124. **Instances where corporation has been held justified in refusing to transfer.** — The plaintiff being the assignee for value of a certificate of stock in a bank, which stock stood in the name of his assignor, demanded a transfer to himself, which was refused on

[1] Newberry v. Detroit, etc., R. Co., 17 Mich. 141.

[2] St. Louis, etc., Ins. Co. v. Goodfellow, 19 Mo. 149.

[3] Hill v. Pine River Bank, 45 N. H. 300.

[4] Stebbins v. Phœnix Fire Ins. Co., 3 Paige, 350.

the ground that the assignor had not paid his original subscription. The plaintiff brought his action for damages for the refusal, and it was held that the bank had a right, by virtue of its by-laws, to refuse a transfer while the original owner was indebted to the bank.[1] And where the articles of association of a bank provided that no stockholder should be permitted to transfer his shares, or receive a dividend thereon, until his indebtedness to the bank was paid, and authority was given to the bank, in case any sum was past due and owing to it, to sell the stock of the owner to pay the same, these two provisions were held to create a lien upon the stock in favor of the bank, for the holder's indebtedness to the bank.[2] But where a stockholder died insolvent and indebted to the corporation, and subsequently the directors passed a resolution prohibiting the transfer of stock by any debtor of the company until the debt should be paid or secured, and afterward the administratrix of the stockholders sold the stock to a person who was ignorant of the indebtedness and the resolution, without which a right of sale and transfer existed in the owner, it was held that the corporation had no right to refuse to transfer the stock on its books to the purchaser.[3]

SEC. 125. **Corporations may be compelled to allow a transfer.** — Where a purchaser or assignee of stock is entitled to a transfer of the stock on the books of the company, he could undoubtedly compel the corporation to have the same so made by the proper officer, by *mandamus*. And where, by the charter or rules and regulations of the corporation, the transfer is thus required to be made, an assignment of certificates of stock would, as we have seen, be good as between the assignor and assignee, and the company could only claim the benefit of the lien for debts due from the assignor. If the claims against him are satisfied, then the

[1] McCready v. Rumsey, 6 Duer, 574.

[2] Arnold v. Suffolk Bank, 27 Barb. 424.

[3] Steamship Dock Co. v. Heron, 52 Penn. St. 280. See, also, Weston v. Bear River, etc., Mining Co., 5 Cal. 186.

Transfers not entered upon the books of the company are, under the California statute, good against all the world except subsequent purchasers in good faith, without notice. People v. Elmore, 35 Cal. 653; Naglee v. Pacific Wharf Co., 20 id. 529.

But the assignee cannot maintain an action for a refusal of the corporation, if the assignor has not paid for the stock. McCready v. Rumsey, 6 Duer, 574.

assignee may compel the transfer on its records.[1] If the corporation demands of the stockholder more than is due, the holder must tender the amount actually due, to put the corporation in the wrong, and enable him to compel the transfer.[2] But, in the absence of fraud or collusion on the part of the company, a mere transfer of stock on the books thereof, by direction of the vendor to his vendee, does not make the company liable as a guarantor of the vendor's title to the stock.[3] And, unless some specific mode of transfer is required, any transfer of stock entitles the transferee to vote at all meetings of the corporate body, and for directors of the company.[4]

Sec. 126. **Stock subject to execution against the assignor until transferred.**— Under the California statute (1852), a transfer of the certificates of stock, though conveying the interest of the owner, was held not to be a valid transfer against a *bona fide* purchaser without notice, who purchased the same at a sale on execution against the assignor, unless there was also a transfer of the stock on the books of the company, as provided by the statutes.[5] So, in Maine, it has been held that under the statute of that state, providing for a transfer of stock on the proper books of the corporation,[6] no transfer of the capital stock of a bank will secure it from attachment, against a recorded owner.[7] But, in some of

[1] Weston v. Bear River Mining Co., 5 Cal. 186. An action will lie against a corporation for a refusal to transfer stock upon its books, if it is its duty so to do Commercial Bank v. Kortright, 22 Wend. 348.

[2] Pierson v Bank of Washington, 3 Cranch (C. C.), 363.

[3] Central R. Co. v. Ward, 37 Ga. 515.

[4] People v. Devin, 17 Ill. 84.

[5] Naglee v. Pacific Wharf Co., 20 Cal 529.

[6] Rev. Stat. Me., chap. 46, § 11.

[7] Skowhegan Bank v Cutler, 49 Me. 315. See, also, First Nat. Bank v. Lanier, 11 Wall. 369. The question as to whether the sale and transfer of stock is complete so as to defeat the rights of creditors to the same is made in some cases to depend upon the provisions of the statutes relating to the same; as for instance whether such transfer is entered on the proper books of the company as required by law. Pinkerton v. Manchester & L. R Co., 42 N. H. 424. See, also, Fisher v. Essex Bank, 5 Gray, 373; Sabin v. Woodstock, 21 Vt. 362, Pittsburgh & C. R. Co. v. Clarke, 29 Penn. St. 146. But see Broadway Bank v. McElrath, 13 N. J. Eq. 24. As to the transfer of equitable interests, and the time for which the transfer dates, see Rice v. Courtis, 32 Vt 460; 1 Story's Eq. Jur. 400, *b*. "A corporation has no implied lien upon stock for the liabilities of the stockholders to the company." 1 Redf. on Rail., § 33, par 5; citing Mass. Iron Co. v. Hooper, 7 Cush. 183; Heart v. State Bank, 2 Dev. Ch. 111; Sargent v. Franklin Ins. Co., 8 Pick. 90.

the states, the equitable title acquired by assignment will be protected by a court of equity against every one, except those who are not affected by notice of the assignment,[1] and in a recent case in California it has been held that an assignee, even before transfer, is entitled to hold the stock against all the world, except a *bona fide* purchaser without notice.[2] In Michigan it is held that an assignment of stock may operate to convey the interest of the holder, even though not recorded upon the books of the company, and that a judgment creditor buying such holder's interest at a sale on execution with notice of the assignment, gets no better title than the holder had at the time of the sale.[3]

SEC. 127. **Stockholder's right of action against a corporation.**— We have already referred to the right of a member to sue a corporation, in a case where, under the same circumstances, he could maintain an action against a natural person. And this right, in particular cases, we will now proceed to illustrate. Thus, a stockholder of a corporation may maintain a bill against the corporation to restrain it from paying a tax illegally assessed upon the property of the company, the state treasurer, seeking to collect the tax, being made a party defendant, and enjoined from collecting the same.[4]

A refusal by the directors of a bank to commence a suit to test the legality of a tax upon the property of the bank is not a breach of their duty for which a bill will lie against them at the suit of a stockholder.[5] But any dissenting stockholder may restrain the company from executing a contract which exceeds its power.[6] And it is well settled that a private corporation may be sued by one of its own members, either at law or in equity, under special circumstances; as where it attempts to do acts which it is not warranted in doing by its charter, it may be restrained by injunction.[7] So, any member of a corporation has a right of action against the corporate body for any injury he sustains from

[1] Colt v. Ives, *ante;* Broadway Bank v. McElrath, 13 N. J. Eq. 24.

[2]

[3] Newberry v. Detroit, etc., Manuf. Co., 17 Mich. 141.

[4] Mechanics', etc., Bank v. Debolt, 18 How. (U. S.) 380; Dodge v. Wolsey, id 331; Mechanics' Bank v. Thomas, id. 384.

[5] Id.

[6] Zabriskie v Cleveland, etc., R. Co., 23 How (U. S) 381.

[7] *Ex parte* Booker, 18 Ark. 338

the wrongful acts of its agents or officers.[1] So a minority of the stockholders of a corporation may maintain a bill in equity in behalf of themselves and the other stockholders against the officers, for conspiracy and fraud, whereby their interests will be or have been sacrificed.[2] And in order to constitute an illegal application of the funds or money of the corporation it is not necessary that there should be any intentional wrong or actual fraud; and to give the court jurisdiction in equity in such a case, the plaintiff need not allege or prove any actual and willful fraud or collusion on the part of the company or the directors thereof.[3] A bill in equity will also lie to compel the delivery of stock to one who has already an equitable title to such stock, although a suit at law might also be maintained therefor.[4]

Sec. 128. **When stockholder may have injunction against corporation.** — An injunction against a corporation will be granted on the application of a single stockholder when he can show that the corporation is employing the corporate powers and funds to accomplish purposes not within the scope of the objects of the institution.[5] But no corporation, or tax payer, individually, or on behalf of himself or others, can sue for an injury to, or misapplication of, the corporate property or franchises, except in cases of fraud, corruption, or violation of law on the part of the functionaries intrusted with the corporate powers and duties.[6] A stockholder may, however, have relief by injunction against a corporation of which he is a member, which is about to use the funds of the company for a different purpose entirely from that which was designed by the act of incorporation.[7] And where a corporation,

[1] Gray v. Portland Bank, 3 Mass. 385. See, also, Waring v. Catawba Co., 2 Bay (S. C.), 109.

[2] Peabody v. Flint, 6 Allen, 52.

[3] Hill v. New Jersey R. Co., 10 N. J. Eq. 171.

[4] Hill v. Rockingham Bank, 4 N. H. 567.

[5] Gifford v. New Jersey R. Co., 10 N. J. Eq. 171.

[6] Arkenburgh v. Wood, 23 Barb. 360.

[7] Baltimore, etc., R. Co. v. Wheeling, 13 Gratt. 40. While a stockholder may be entitled to an injunction against the directors from misapplying the funds of the corporation, or from changing the purpose for which it was created, yet an injunction will not be granted to restrain the general management of the business unless a clear violation of law, or a wide departure from the charter purposes is shown. Bach v. Pacific Mail Steamship Co., 12 Abb. Pr. (N. S.) 373; Goodwin v. New York, etc., R. R. Co., 43 Conn. 494.

of which the plaintiff was a member, obtained permission from the legislature to extend their railroad beyond the terminus named in the original charter, and accepted said act granting said extension by a majority vote, against the wishes of the plaintiff, who was a stockholder, it was held that this was a fundamental change in the purposes for which the corporation was organized, which could not be binding upon the individual corporators without their consent, and that the plaintiff was entitled to have an injunction against the appropriation by the defendant (the corporation) of the funds or credits of the corporation, toward the construction of the proposed extension of the road.[1] And it has also been held that if an individual stockholder has suffered damage in a contract with a corporation through the fraudulent and illegal acts of the directors, done by color of their office, his only remedy is against the corporation; and that he cannot maintain an action against the directors, who are themselves liable to the corporation.[2] But a minority of the stockholders in a corporation have a remedy in chancery against the directors, and against the corporation and all others, whether individuals or corporations, assisting or confederating with them, to prevent such corporation and the directors thereof from making any misapplication of their capital or profits, which might result in lessening the dividends of the stockholders or the value of their shares, if the acts intended to be done constitute in law a breach of trust or duty.[3] The general rule, however, is that the suit against a ministerial officer or agent, to account, or for misconduct, must be brought in the name of the corporation; and that it cannot be maintained in the name of an individual stockholder.[4] But, if justice cannot otherwise be obtained, or where the directors, officers and managers, having the control of the corporation and its affairs, are guilty of misconduct that amounts to a breach of trust, it will be permitted to sue them.[5]

[1] Stevens v. Rutland R. Co., 29 Vt. 545. See, also, Bliss v. Anderson, 31 Ala. 612; Neall v. Hill, 16 Cal. 145. But, in Connecticut, it has been held that an individual stockholder cannot maintain an action at law against the directors of a corporation for mismanaging its affairs or defrauding the corporation. Allen v. Curtis, 26 Conn. 456.

[2] Smith v. Poor, 40 Me. 415.

[3] March v. Eastern, etc., R. Co., 40 N. H. 548. See, also, Gardiner v. Pollard, 10 Bosw. 674; Vanderbilt v. Garrison, 5 Duer, 689.

[4] Brown v. Vandyke, 8 N. J. Eq. 795.

[5] Id.

Sec. 129. **Liability of the stockholders in equity to creditors.**—In equity, the property of a corporation is regarded as held in trust for the payment of its debts, and creditors may pursue it into the hands of any person, not a *bona fide* holder. And it is also well settled that the stockholders of a corporation are not entitled to any share of the capital stock or dividends of the profits, until all the debts are paid. Therefore, a sale of the capital stock of a corporation and a division of the proceeds among the stockholders will not defeat the rights of creditors; but they may compel such stockholders to contribute *pro rata* to the payment of the corporate debts out of the moneys so received.[1] This doctrine was recently affirmed in the supreme court of the United States. Mr. Justice Clifford, in delivering the opinion of the court, observed: "Equity regards the property of a corporation as held in trust for the payment of the debts of the corporation, and recognizes the right of creditors to pursue it into whosoever's possession it may be transferred, unless it has passed into the hands of a *bona fide* purchaser; and the rule is well settled that stockholders are not entitled to any share of the capital stock, nor to any dividend of the profits, until all the debts of the corporation are paid. Assets derived from the sale of the capital stock of the corporation, or of its property, become, as respects creditors, the substitutes for the things sold; and as such they are subject to the same liabilities and restrictions as the things sold were before the sale, and while they remained in the possession of the corporation. Even the sale of the entire capital stock of the company, and the division of the proceeds of the sale among the stockholders, will not defeat the trust, nor impair the remedy of the creditors, if any debts remain unpaid; as the creditors in that event may pursue the consideration of the sale in the hands of the respective stockholders and compel each one, to the extent of the fund, to contribute *pro rata* toward the payment of their debts out of the moneys so received and in their hands."

Valid contracts made by a corporation survive even its dissolution by a voluntary surrender or sale of its corporate franchises,

[1] See *post*, chap. 14. A creditor of the corporation cannot maintain an action against the directors for damages on the ground that their misconduct has caused the insolvency of the corporation. Winter v. Baker, 34 How. Pr. 183; 50 Barb. 435.

and the creditors of the corporation, notwithstanding such surrender and sale, may still enforce their claims against the property of the corporation, as if no such surrender had taken place. Moneys derived from the sale and transfer of the franchises and capital stock of an incorporated company are assets of the corporation, and, as such, constitute a fund for the payment of its debts; and if held by the corporation itself, and so invested as to be subject to legal process, the fund may be levied on by such process; but if the fund has been distributed among the stockholders, or passed into the hands of other than *bona fide* creditors or purchasers, leaving any debts of the corporation unpaid, the rule in equity is, that such holders take the fund charged with trust in favor of creditors, which a court of equity will enforce, and compel the application of the same to the satisfaction of their debts.[1] Regarded as the trustee of the corporate fund, the corporation is bound to administer the same in good faith for the benefit of the creditors and stockholders, and all others interested in its pecuniary affairs; and any one receiving any portion of the fund by voluntary transfer, or without consideration, may be compelled to account to those for whose use the fund is held. Creditors are preferred to stockholders on account of the peculiar trust in their favor, and because the latter, as constituent members of the corporate body, are regarded as sustaining, in that respect, the same relation to the former as that sustained by the corporation.[2]

SEC. 130. **Over-issued, and "watered stock."**—The constating instruments, in this country, generally limit the capital stock of corporations for pecuniary profit, and fix the number of shares into which the same shall be divided. In other cases, and particularly under special charters, corporations, in this respect, are only limited by the circumstances of the case, and may issue stock and increase the capital to any extent required to carry out the purposes and objects of the enterprise, without any formal vote of the stockholders.[3]

[1] Story's Eq. Jur., § 1252; Mumma v. Potomac Co., 8 Pet. 286; Wood v. Dummer, 3 Mason, 308; Vose v. Grant, 15 Mass. 522; Spear v. Grant, 16 id. 14; Curran v. Arkansas, 15 How. 307.

[2] The Chicago, etc., R. Co. v. Howard, 7 Wall. 392.

[3] Payson v. Stower, 2 Dill. (U. S C. C.) 428. But see Eadman v. Bowman, 58 Ill. 444, where it was held that the increase must be authorized by votes of the stockholders.

An over-issue of stock certificates generally operates to reduce the value, in such cases, of the original stock legitimately issued to existing stockholders, and such stock is usually issued by the directors or other managers and agents, for selfish and fraudulent purposes, and is a fraud upon such existing stockholders as do not authorize it. The stock thus affected is frequently, by a figure of speech, called "watered stock."

A variety of decisions have been rendered, in reference to such over-issued stock and the obligations of the corporation therefor. On the one hand it has been claimed that as such over-issue was the act of the directors or other agents of the corporation, and that although in excess of their authority or of the authority of the corporation, still as the corporation select its agents, when they act within the apparent scope of their authority, the corporation should be liable, as the corporation furnish such agents with the means of imposing on innocent parties, and therefore it should be bound by such acts of its agents.[1] And it has been further maintained that, although such fraudulent over-issue of stock, or a contract made by agents therefor, imposed no obligation upon the corporation, in respect to it, still the corporation would be responsible, for the fraud of the agents in issuing such spurious stock, and for all damages sustained thereby by the purchaser; and that his remedy for the tort would be as effectual and afford him as complete indemnity as if the contract had been binding on the part of the corporation.[2] On the other hand it has been held that such issue of stock on the part of the corporation or its agents, in excess of the limitations of the constating instruments, is *ultra vires* and void; that parties dealing with such agents are bound to take notice of such limitations in the fundamental law of the corporation;[3] that if the company has authority to act in a matter and appoints an agent for the purpose, but the agent fraudulently exceeds his authority, the person dealing with the agent in relation to stock can claim no advantage therefrom, or against the corporation, if he has knowledge of the fraudulent

[1] Mechanics' Bank v. New York & N. H. R. Co., 4 Duer. 480.

[2] New York & N. H. R. Co. v. Schuyler, 38 Barb. 534; Shotwell v. Mali, id. 445; Cazeaux v. Mali, 25 id. 578.

[3] 2 Redf. on Rail., § 234, par. 70 and note.

acts of the agent, or if he acts in bad faith in the transaction; and that a *bona fide* purchaser from him would be in no better situation.

This is illustrated by a recent case in New York,[1] where the facts were as follows: By the act creating a corporation, its capital stock was limited to $3,000,000, and divided into shares of $100 each, transferable in such a manner as the company should direct; the entire stock was taken, and certificates issued therefor to the owners. The by-laws of the company prescribed that transfers of stock should only be made on the transfer books of the company, and required the certificate of ownership to be surrendered prior to the making of such transfer and the issue of a new certificate. The company established a transfer agency, and appointed their president a transfer agent, who was authorized and accustomed to the transfer of stock on the books in his charge, and on the surrender of the certificates therefor, to execute and deliver to the transferee the usual certificate, stating that he was entitled to the number of shares of stock specified therein, transferable on the books of the company by him or his attorney, on the surrender of the certificate. The agent fraudulently gave to one Kyle a certificate in the usual form for eighty-five shares of stock, when, in fact, the latter owned no stock, none stood on the books in his name, and no certificate for such stock had been surrendered. The plaintiffs in good faith, and relying upon the certificate as regularly issued and valid, made a loan to Kyle, receiving from him as security the certificate, with an assignment of the stock and a power of attorney to transfer the same. In an action by the plaintiffs against the corporation for refusing to permit the stock represented by the certificate to be transferred, it was held by the court of appeals of that state, that the certificate was void, and that the plaintiffs did not thereby acquire a right, legal or equitable, to any stock; that the corporation was not responsible to the plaintiffs for damages sustained by their reliance upon the genuineness of the certificate; that the certificate did not partake of the character of negotiable instruments; that a *bona fide* assignee of such an instrument takes it subject to the equities

[1] Mechanics' Bank v. New York & N. H. R. Co., 13 N. Y. 599.

which exist against the assignor; and that the doctrine of estoppel *in pais* was not applicable to such a case.[1]

On this subject Mr. Redfield appropriately observes: "Whatever may be said of the duty of corporations to employ only reliable directors and transfer agents, and of the justice of the company being bound by their acts, within the apparent scope of their employment, all of which are in general terms most undeniable propositions; still, something is due to common prudence and reasonable caution, on the part of those who deal in stock, to see at least what the charter and books of the company will at once disclose to any one who will examine. And if, instead of making a reasonable examination of matters obviously within his reach, one sits down blindly to adventure millions upon a spurious issue of stock in such sums and at such times as to induce most prudent men to hesitate about its genuineness, it is perhaps not unreasonable that he should be held bound by such facts as the slightest examination must have disclosed. This is the rule in regard to most commercial and business transactions, and we see no special hardship in its application here within reasonable limits."[2]

[1] See, also, Chicago City R. Co. v. Allerton, 18 Wall. 233; New York & N. H. R. Co. v. Schuyler, 34 N. Y. 30; Curran v. Arkansas, 15 How. (U. S.) 304; Curry v. Scott, 54 Penn. St. 270, Ernest v. Nicholls, 6 H. L. C. 401. But see Greenwood's case, 3 De G., M. & G. 471; Athenæum Ass. Co. v. Poley, 1 Giff. 102.

[2] 2 Redf. on Rail., § 234, 11.

CHAPTER VI.

DIRECTORS.

SEC. 131. Directors — election of.
SEC. 132. Relation of, to stockholders.
SEC. 133. Powers of directors.
SEC. 134. Same continued.
SEC. 135. Board of directors or managers.
SEC. 136. General powers of, and limitations thereon.
SEC. 137. Implied powers of.
SEC. 138. Acts not within the scope of their powers.
SEC. 139. Powers conferred by the fundamental law.
SEC. 140. Powers depend upon interpretation.
SEC. 141. Powers not conferred upon directors remain in the corporate body.
SEC. 142. The directors cannot change the character and objects of the corporation.
SEC. 143. Directors as agents.
SEC. 144. Distinction in Massachusetts.
SEC. 145. Rule in England as to the authority of directors.
SEC. 146. Delegation of authority.
SEC. 147. Ratification of agent's acts.
SEC. 148. Same continued.
SEC. 149. Effect of knowledge of unauthorized acts.
SEC. 150. Effect of ratification.
SEC. 151. Directors under the national banking law.
SEC. 152. Personal liability of directors.
SEC. 153. Same continued.
SEC. 154. The fiduciary character of directors.
SEC. 155. Same continued.
SEC. 156. They cannot manage the affairs of the corporation for their personal benefit.
SEC. 157. Contracts by directors with corporation.
SEC. 158. Instances where they are not personally liable.
SEC. 159. Where they act without authority.
SEC. 160. Liability as partners.
SEC. 161. Directors *de facto*.
SEC. 162. Compensation of.
SEC. 163. Cannot increase their own compensation.
SEC. 164. Meetings of directors.

SEC. 131. **Election of.** — The directors and other elective officers of a corporation must be chosen in the manner required by the charter, or the general law under which the corporation is organized, and even where the charter or general law does not designate the length or kind of notice to be given of the time and place of the meeting for such election, it is obvious that a reasonable notice to all the stockholders would be required, unless *all* the stockholders were present and gave their assent either personally or by proxy. And this is the case even in relation to *annual* meetings, and although the by-laws fix the time and place, of such meeting.[1] If the meeting is required to be called by the clerk, in a certain way, he alone has the power to call it, unless provision is made for it being called by some other officer in the case of the disability or failure of the clerk to call it, and the mode specified must be adopted. Thus where notice of an election was required to be given by the *directors* of a corporation, it was held that a notice signed by a majority of the directors not stating that it was by the order of the board, and not stating that the persons who signed the call *were directors*, it was held that the call was not sufficient, and could not be the basis of a legal meeting.[2] In the case last cited, the strictness of this rule was well illustrated, and it was held that, where the directors of a corporation are empowered to designate the time for holding an election, such designation *must be by the board when lawfully convened;* and a determination by the board or a majority of the directors that an election must be held, without fixing a time, does not authorize one of them to fix the time and give notice for such time. It was also held that, when a charter directs that all elections of directors after the first shall be held annually, at such times as the by-laws shall direct, *no second election can be held until by-laws designating the time have been adopted.* Nor can there be an omission to hold an election such as to authorize the directors to designate a day for it provided for only in case of such omission. The notice for an annual or other meeting of the corporation must designate the day, hour and place where it is to be held, and the meeting cannot be held until the hour designated in the notice, nor at any

[1] San Buenaventura, etc., Mfg. Co. v. Vassault, 50 Cal. 534; People v. Albany, etc., R. R. Co., 55 Barb. 344.

[2] Johnston v. Jones, 23 N. J. Eq. 216.

other place, unless regularly adjourned. Thus, in a New York case,[1] a part of the stockholders of a corporation met fifteen minutes before the hour for which an election was appointed, and organized as a meeting of the corporation, and chose inspectors, and precisely at the hour, as they claimed, they adopted resolutions to proceed with the election, and confirming the selection of inspectors, and thereupon held an election; while another party of stockholders, in another room, at or shortly after the hour appointed, organized as a meeting of the corporation, appointed inspectors, and proceeded also to an election. It was held that the proceedings at the former meeting operated as a surprise and fraud upon the stockholders who did not participate in the meeting, and as to them was irregular and void; and such irregularity could not be cured by a reorganization of the meeting at the proper time, where such meeting was in fact, and in legal effect, but a continuation of the first meeting. The election at the second meeting was held valid, although the polls were kept open somewhat longer than the time fixed by the notice, it appearing that such action was fairly within the exercise of a reasonable discretion, and for the purpose of giving the stockholders a fair opportunity to vote. None but *bona fide* stockholders, or persons holding the proxies of stockholders, can vote at an election of officers of a corporation, and if the list of stockholders exhibited and voted upon at such election was not a *true* list of the stockholders, and was made up fraudulently, and contained the names of persons not entitled to vote, the election is not legal.[2] Where

[1] People v. Albany, etc., R. R. Co., 55 Barb. 344. Where the stockholders of a corporation were notified that the annual meeting for the election of directors would be held at a certain hour of the day fixed by the charter, and the corporation was restrained from holding an election on that day, in consequence of which no meeting was held until several hours after the time fixed in the notice, when a small number of stockholders, without the knowledge of the others, met, organized, and adjourned until the next day, at which time an election was held by a minority of the stockholders, without notice to others, who were in the vicinity for the purposes of the meeting, and might have been readily notified. Held, that such election was invalid, whether the restraining order did or did not bind the stockholders. State v. Bonnell, 35 Ohio St. 10.

[2] Johnston v. Jones, *ante*. But see People v. Albany, etc., R. R. Co., *ante*, where it was held that a by-law of a corporation requiring that on an election day the secretary should produce the transfer books and a list of the stockholders entitled to vote, etc., and that inspectors should be chosen from among the stockholders, is directory, and an omission to produce the books does not invalidate the election, although it casts the burden of proof upon the parties claiming under it, to show that voters challenged were, or appeared by the books to be, entitled to vote.

a meeting is legally convened for that purpose, unless the charter, statute or by-laws otherwise provide, the persons receiving a majority of all the votes cast, although less than one-half the stock was represented, are legally elected as directors, and clothed with all the functions and powers, as well as duties and liabilities of that office.[1]

SEC. 132. **Relation of, to stockholders.**—The directors of a corporation stand in the relation of trustees to the stockholders and also to creditors of the corporation, and will not be permitted to speculate with the funds or assets of the corporation for their own advantage, or in any manner by means of the power reposed in them to receive any advantage for themselves over other stockholders.[2] There is an inherent obligation implied in the acceptance of such trust, not only that they will use their best efforts to promote the interests of the stockholders, but that they will in no manner use their position to advance their individual interests as distinguished from that of the corporation or acquire interests that shall conflict with the fair and proper discharge of their trust.[3] They do not represent any particular class of stockholders, but have a duty to perform as to all,[4] and they will not be permitted unfairly to do acts for the benefit of one class of its stockholders to the detriment or disadvantage of another class. Thus, where a board of directors of a mining corporation makes a nominal lease of a mine owned by the corporation, to a party really acting in the interests of a minority of the stockholders, not in the ordinary course of the business of the corporation, but for the purpose of withdrawing the mine from the control of the board of directors about to be elected at an approaching meeting of the stockholders, and thereby perpetuating the control of the minority, a court of equity will cancel the lease on a bill filed by the corporation for that purpose,[5] and generally, where a director, by means of his position as such,

[1] Brown v. Pacific Mail Steamship Co., 5 Blatchf. 525.

[2] Corbett v. Woodward, 6 Sawyer (U. S. C. C.), 403; European & N. A. R. Co. v. Poor, 59 Me., 277.

[3] Cumberland Coal Co. v. Parish, 42 Md. 598; Hale v. Republican Bridge Co., 8 Kans. 466.

[4] Chase v. Vanderbilt, 62 N. Y. 307.

[5] Mahoney Mining Co. v. Bennett, 5 Sawyer (U. S. C. C.), 141.

secures any undue advantage for himself over other stockholders, either directly or indirectly, equity will treat the transaction as void.[1] The president of a corporation, who is also a director, will not be permitted to create such a relation between him and the trust property as will make his own interest antagonistic to the beneficiary, and where such an officer bought a small debt against the corporation and took valuable property thereon, he was enjoined from levying for the balance.[2]

SEC. 133. **Powers of directors.**—The powers of directors are such as are conferred upon them by the constating instruments or by-laws of the body, and such as are implied from the nature of the duties devolving upon them in the particular corporation whose business they direct. But, as a general rule, they possess no powers beyond those residing in the corporate body. And if they should exceed the powers conferred upon them, or perform acts exceeding their authority, they would be *ultra vires* and void.

They are the agents of the corporation so far as authorized, either expressly or impliedly, by the fundamental law of its being. But they do not possess powers not conferred upon it in this manner, or such as do not come within the usual powers of such agents by the common law. It has been held that the authority to act as directors will be liberally construed in their favor, and with a due consideration for the best interests of the company.[3] Thus in a case where the directors had authority to sell the ships of the company, it was held that they might sell all its ships.[4] And where the general powers of the body of the corporation are transferred to the properly constituted directors, they may, unless restricted, do whatever the corporation might; and by virtue of this power they may dispose of the corporate property in whole or in part; but this general power is held not to extend to its franchises, and unless they are expressly authorized by law so to

[1] Corbett v. Woodward, *ante;* Farmers and Merchants' Bank v. Downe, 53 Cal. 466.

[2] Brewster v. Stratman, 4 Mo. App. 41.

[3] Wilson v. Meiers, 10 C. B. (N. S.) 348.

[4] Wilson v. Meiers, 10 C. B. (N. S.) 348.

do, they would not possess the power to dispose of them.[1] Where, by the law of its constitution, the corporation has authority to sell and transfer its property or franchises, or to consolidate with any other company, this authority could be exercised by the directors by virtue of their express or implied powers.[2] But a sale and transfer of the rights of one company to another, without legislative authority by the directors, is held to be against public policy, and courts will not aid a transfer against such policy, or in disregard of the duties and the obligations of the company.[3] And it seems well settled that no corporation can, without express legislative authority, either sell or mortgage its franchises.[4]

SEC. 134. **Same continued.** — A provision in a bank charter, conferring upon the directors power to make such by-laws, rules and regulations as shall be needful, touching "the time, manner and terms upon which discounts and deposits shall be made," will be construed as giving to the directors power to make by-laws, etc., to operate and control merely the internal conduct of the bank, and to restrain and direct its own officers in the management of its affairs and not to affect the public at large or prejudice the rights and interests of third persons.[5] But where a charter provided that the capital stock "may be increased from time to time at the

[1] Wood v. Belford, etc., R. Co., 8 Phil. (Penn.) 94; Middlesex R. Co. v. Boston, etc., R. Co., 115 Mass. 347; Enfield Toll Bridge Co. v. Connecticut, etc., R. Co., 7 Conn. 29; Abbot v. Hard Rubber Co., 33 Barb. 587; Fisher v. Evansville, 7 Ind. 407; State v. Bailey, 16 id. 46; Bruffett v. Great Western R. Co., 25 Ill. 353; Hatcher v. Toledo, etc., R. Co., 42 id. 447; Mahaska, etc., R. Co. v. Des Moines, etc., R. Co., 28 Iowa, 437.

[2] Treadwell v. Salisbury Manf. Co., 7 Gray, 393; Lauman v. Lebanon, etc., R. Co., 30 Penn. St. 42; New Orleans, etc., R. Co. v. Harris, 27 Miss. 517. See, also, Black v. Delaware, etc., R. Co., 24 N. J. Eq. 455, where it is held that in case of a lease or sale by virtue of legislative authority, unless provision is made for compensation to such stockholders as dissent, they may prevent it. But see *post*, chap. 16.

[3] Hayes v. Ottaway, etc., R. Co., 61 Ill. 422.

[4] York, etc., R. Co. v. Winans, 17 How. (U. S.) 39; Pullan v. Cincinnati, etc., R. Co., 4 Biss. 35; Pierce v. Emery, 32 N. H. 484; Commonwealth v. Smith, 10 Allen, 448; Richardson v. Sibley, 11 id. 65; Hendee v. Pinkerton, 14 id. 381; Troy, etc., R. Co. v. Kerr, 17 Barb. 601; Lauman v. Lebanon Valley R. Co., 30 Penn. St. 42; Winchester T. Co. v. Vimont, 5 B. Monr. 1; Arthur v. Commercial Bank, 9 S. & M. 394; Coe v. Columbus, etc., R. Co., 10 Ohio St. 372. But compare Shepley v. Augusta, etc., R. Co., 55 Me. 395; Kennebec, etc., R. Co. v. Portland, etc., R. Co., 59 id. 9; Miller v. Rutland, etc., R. Co., 36 Vt. 452; Hall v. Sullivan R. Co., 2 Redf. Am. R. Cases, 621.

[5] Seneca County Bank v. Lamb, 26 Barb. 595.

pleasure of said corporation," it was held that the directors alone had no power to increase it, although it was further provided that "all the corporate powers shall be vested in and exercised by a board of directors and such officers and agents as said board shall appoint." It was further held that such powers referred to ordinary business transactions.[1]

SEC. 135. **Board of directors or managers.** — We have said that it is usually provided by the fundamental or constatory regulations of the body, for the election of directors and the exercise of their powers and duties. In such cases these regulations must ordinarily be considered in the light of a power of attorney; and the general principles applicable to agency are applicable to a board composed of such directors. Where their powers are specifically defined by such instruments, they are thereby limited, and cannot claim, in respect to the powers thus regulated, to have the common-law powers of such a body. To hold otherwise would be, in the language of Mr. Justice STORY, "to suppose that the common law is superior to legislative authority; and that the legislature cannot dispense with forms, or confer authorities which the common law attaches to general corporations." [2]

SEC. 136. **General powers of, and limitations thereon.** — The general powers conferred upon the board of directors gives them control of the property of the corporation;[3] but the board would have no power, by an act or resolution, to exclude a member from any common-law or statutory rights; such as to exclude him from an examination of the bank books of the corporation, on the ground that he was hostile to its interests,[4] or indeed to do any act which is inconsistent with the position he holds as trustee of the stockholders of the company.[5] The powers of the directors under a general authority will, of course, depend upon the nature and character of the corporation. Thus, the board of directors of a banking corporation may authorize its

[1] Railway Co. v. Allerton, 18 Wall. 233.
[2] Fleckner v. Bank of U. S., 8 Wheat. 338.
[3] See Spear v. Ladd, 11 Mass. 94; Northampton Bank v. Smith, 2 Cow. 579.
[4] People v. Throop, 12 Wend. 183.
[5] Cumberland Coal Co. v. Parish, *ante;* Chase v. Vanderbilt, *ante*.

agents to borrow money;[1] fix the rates and conditions of discounts;[2] pass resolutions authorizing the stockholders to transfer their stock to the bank in payment of their debts to it;[3] and authorize any one of their number to assign any securities belonging to the bank.[4]

The board of directors may, ordinarily, do any act, in the general management of the business, that the company can do, unless restrained by the creating or constating instruments, or the by-laws of the body.[5]

Sec. 137. **Implied powers of.** — It will be manifest that the powers of directors of joint-stock, as well as many other corporations, are mostly implied, or to be inferred, from grants of authority in general terms. In fact, the constitution of directors of a corporate body would carry with it, by implication, a variety of duties and powers, the details of which are seldom or never expressed in the articles or by-laws of the institution. It is difficult to lay down any universal rules relating to their powers, as they must largely depend upon the nature, character and objects of the corporation. It may be said, however, that they possess all the powers to act, which the corporation would possess if it had no directors; unless they are restrained by some express law or by the by-laws of the corporation, or from implication necessarily deduced therefrom. But they possess no powers by implication which were not necessary for an economical and successful prosecution of the purposes of the institution, and cannot engage in any business or transactions foreign to the purposes and ordinary business of the

[1] Ridgway v. Farmers' Bank, 12 S. & R. 256; Leavitt v. Yates, 4 Edw. 134.

[2] Bank of U. S. v. Dunn, 6 Pet. 51; Bank of Metropolis v. Jones, 8 id. 16; Percy v. Millaudon, 3 La. 568; Bank of Pennsylvania v. Reed, 1 W. & S. 101.

[3] Taylor v. Miami Exporting Co., 6 Ohio, 218; City Bank of Columbus v. Bruce, 17 N. Y. 507.

[4] Spear v. Ladd, 11 Mass. 94; Northampton Bank v. Pepoon, id. 288; Bank Commissioners v. Bank of Brest, 1 Harr. Ch. 106; Lester v. Webb, 1 Allen, 34.

[5] Whitwell v. Warner, 20 Vt. 425; Bank of Middlebury v. Rutland, etc., R. Co., 30 id. 159. See, also, Augusta Bank v. Hamblet, 35 Me. 491; Dispatch Line, etc., v. Bellamy, 12 N. H. 225; Bank of Middlebury v. Edgerton, 30 Vt. 182; Miller v. Rutland, etc., R. Co., 36 id. 452; Burrill v. Nahant Bank, 2 Metc. 163; Sargent v. Webster, 13 id. 497; Hoyt v. Thompson, 19 N. Y. 207; Gordon v. Preston, 1 Watts, 388.

company.[1] But the large increase of corporations, and the almost infinite variety of business purposes for which they are created, and the vast importance which they have assumed in the conduct and management of enterprises and industries so essential to the development of the resources of every country, and the necessity for giving to the directors and officers large discretionary powers, and the assumption of such powers from necessity, has induced the courts to concede to them much more extensive implied powers than they were formerly regarded as possessing, and it may be said that they are treated as possessing all the powers requisite for the successful prosecution of the business for which they were created.

SEC. 138. **Acts not within the scope of their powers.** — The directors of a corporation have full authority and power to act for and in the place and stead of the corporation, in all matters within the scope of the express or implied powers conferred upon the corporation itself, in the prosecution of the business or purposes for which it was established; but, beyond that, they have no power to bind the corporation, except where they are specially authorized by the stockholders at a proper meeting for that purpose. Thus, it has been held that they have no general authority to apply to the legislature for any change or enlargement of the corporate powers;[2] nor to alienate property essentially necessary for the transaction of the company's business;[3] nor to destroy the corporate existence, or give away its funds, or deprive it of its means to acomplish the purposes of its creation.[4]

On this subject, Mr. Justice STORY once observed: "Inde-

[1] As to the general powers of directors unless restrained by the laws of the institution, see Whitwell v. Warner, 20 Vt. 425; Bank of Middlebury v. Rutland, etc., R. Co., 30 id. 159; Augusta Bank v. Hamblet, 35 Me. 491; Dispatch Line, etc. v. Bellamy Manuf. Co., 12 N. H. 225; Bank of Middlebury v. Edgerton, 30 Vt. 182; Miller v. Rutland, etc., R. Co., 36 id. 452; Hoyt v. Thompson, 19 N. Y. 207; Gordon v. Preston, 1 Watts, 385.

[2] Marlborough Manuf. Co. v. Smith, 2 Conn. 579.

Where the directors of a company release subscribers from their subscriptions, the subscribers still remain as contributories upon the winding up of the corporation. *In re* London, etc., Coal Co., L. R., 5 Ch. Div. 525; White Mountain R. R. Co. v. Eastman, 34 N. H. 124.

[3] Abbot v. American Hard Rubber Co., 33 Barb. 587.

[4] Burke v. Smith, 16 Wall. 395; Penobscot, etc., R. Co. v. Dunn, 39 Me. 587; Bedford, etc., R. Co. v. Bowser, 48 Penn. St. 29.

pendent of some special and positive law, or provision in its charter to such an effect, I do exceedingly doubt if any corporation, at least without the express assent of all the corporators, can rightfully dispose of all its property by such a general assignment, so as to render itself incapable in the future of performing any of its corporate functions."[1] And where the organic law vests in the directors all the corporate powers, this is construed to relate to the ordinary transactions of the company and is held not to extend to a reconstruction of the corporation, or to an enlargement of its capital.[2] And it has also been held that it is an abuse of the trust of directors wholly unauthorized, and at war with the design of the charter, to single out some of the subscribers to the stock and release them from their liability.[3] Mr. Justice STRONG on this subject observes: "It has been settled by very numerous decisions that the directors of a company are incompetent to release an original subscriber to its capital, or to make any arrangement with him by which the company, its creditors, or the state, shall lose any of the benefits of his subscription. Every such arrangement is regarded in equity not merely *ultra vires*, but as a fraud upon other stockholders, upon the public, and upon the creditors of the company."[4]

SEC. 139. **Powers conferred by the fundamental law.** — From what has already been said, it is evident that the powers of directors may not only be limited by the regulations or fundamental law of the corporation, relating especially to them, but by the powers of the corporate body itself. If the management of its affairs are committed to them by the fundamental law of its existence, they alone have the power to manage its concerns; and may exercise their discretion without being subject to the control of the corporate body.[5] Nor have the stockholders any general right to inter-

[1] Dissenting opinion of STORY, J., concurred in by Justices BALDWIN and MCLEAN, in Beaston v. Farmers' Bank, 12 Pet. 102.

[2] Railway Co. v. Allerton, 18 Wall. 233.

[3] Bedford R. Co. v. Bowser, 48 Penn. St. 29.

[4] Burke v. Smith, 16 Wall. (U. S.) 395. See, also, Alford v. Miller, 32 Conn. 543; Bank v. St. John, 25 Ala. (N. S.) 566; Jones v. Terre Haute, etc., R. Co., 57 N. Y. 196. See, also, Howe v. Duel, 43 Barb. 508.

[5] Bank of the U. S. v. Dandridge, 12 Wheat. 113.

fere with the management of the affairs of the company by the directors, where they act in good faith, and within the scope of the general powers of the corporation. The remedy of the stockholders for mismanagement, or a lack of ability or judgment on the part of these agents, would be to make a change of them at a proper meeting, held for that purpose, which is generally provided for by the laws of the institution. In this way a change of management and of the business policy may be effected to suit the interests or the wishes of a majority of the members.

On the subject of the exclusiveness of the authority of the directors of a corporation, and their exemption from any interference on the part of the stockholders, and their right to control and manage the corporate affairs, within the scope of the authority conferred upon them, it was recently observed: "It might well be doubted whether a general meeting of the stockholders of the plaintiff [the corporation] could be legally held for any other purpose than the selection of a board of directors. Such a meeting as to any other purpose or object could only be in its purpose and character advisory to the board of directors. It would have no power to take under its charge or put under the charge of others the affairs of the company. The president and directors of such a corporation as the plaintiff have been said to be the agents of the stockholders; but this expression must be understood in view of, and must be limited to, the subject under consideration. In any thing like a general or universal sense, it will be readily seen that it cannot be true. Indeed, so far as third persons and especially the government or creating power of the corporation are concerned, the president and the directors, and the stockholders may rather be considered as the members and limbs, each acting within its appropriate sphere, of that artificial being or entity, to which the name and powers of the corporation have been assigned by the law of its creation. When, therefore, a question arises, by whom the conferred powers are to be exercised, it will be determined rather by the law of the creation of the company, showing in each case on whom the governing or controlling power has been conferred, than by any consideration of the rights and interests of those concerned in the corporation as among them-

selves." [1] If the stockholders are dissatisfied with the management of the affairs of the company they may apply to a court of equity for relief in a proper case, or in the absence of any ground upon which equitable interference can be invoked, they must wait until an opportunity presents, and change the management. They have no power, through stockholders' meetings or otherwise, to take from the directors any of the express or implied powers possessed by them.

Sec. 140. **Powers depend upon interpretation.** — The powers of directors must frequently depend upon the construction of the fundamental law of the corporation, and the questions most frequently presented to the courts are those relating to the law creating and constituting boards of directors, and the proper construction and interpretation of the charter, articles of association, by-laws, or constating instruments of the corporation.

Sec. 141. **Powers not conferred on directors remain in the corporate body.** — As the directors of a corporation are, at least in one sense, agents of the corporation, being the instruments through which the corporation acts, and unlike agents not subject to the rd ers or directions of the corporation — their principal — or liable to have their powers revoked except by the methods provided by law, and receive their powers from their appointment and the constating instruments, whatever power, in reference to the management

[1] Opinion by Gholson, J., in Dayton, etc., R. Co. v. Hatch, 1 Disn. 84. See, also, Whitewell v. Warner, 20 Vt. 425; Com. v. Roman Cath. Soc., 6 S. & R. 508; Ridgway v. Farmers' Bank, 12 id. 256; Bank of Kentucky v. Schuylkill Bank, 1 Paris. Sel. Cas. 180; State v. Bank of Louisiana, 6 La. 745; Salem Bank v. Gloucester Bank, 17 Mass. 29, where it is held that, if the general power of making by-laws is left by the charter to the corporation at large, the power of the board of directors may be circumscribed by them.

In Conro v. Port Henry Iron Co., *supra*, a lease was made by the stockholders instead of the directors, and the charter provided for a board of directors of the corporation with general powers; the court say: "It is quite obvious from the charter, that the company could do no act except through the directors. When the charter prescribes the mode of its action, its injunctions must be rigidly pursued. * * * The stockholders in this case had no power to make a lease or do any other administrative act in the management of the affairs of the corporation. If a case could be made at all, it could be executed only in pursuance of an act of the directors, who are appointed by the charter for the management of its affairs. It is no answer that individual stockholders, who were present at the meeting when the lease was ordered, were also directors. They did not meet or act as directors, but as stockholders."

of its affairs, does not, by virtue of these, vest in them, must reside in the whole body; and it has been held that in emergencies, where the charter failed to prescribe the mode of procedure so as to accomplish the objects of the corporation, the stockholders have a right to act and exercise whatever power is necessary to carry out the purposes of the company and preserve its corporate existence.[1] Where the charter or by-laws are silent as to the manner in which certain acts shall be done, and they cannot be said fairly to come within the implied powers of the directors, they may acquire authority to do the acts by a vote of the stockholders of the corporation at a meeting legally called for that purpose, provided they are acts which is within the power of the corporation to perform, and authority can be acquired in no other manner, and such an act performed by directors without this special authority is illegal and void.[2] Thus directors have no authority, unless specially conferred, to sell the entire movable property of the corporation, when such sale would prevent a continuance of its business, and such a sale, made without special authority conferred upon them by the stockholders at a legal meeting, would be void as to all stockholders who did not assent thereto;[3] and in the Louisiana case cited *supra*, the same doctrine was held where the building committee of a corporation sold the corporate property to the builder in liquidation of his claim, without special authority. In an English case[4] it was held that authority reposed in directors to sell or lease the works of the corporations could not, without special authority, lease them, and give the lessee the option of purchasing within a certain time; that they only had authority to lease *or* to sell, and that their authority was exhausted by leasing the property, and the option given the lessee to buy could only become valid by being ratified by the members of the company. From these illustrations it will be seen that the powers of directors are not unlimited and are circumscribed by the express provisions of the charter and the by-laws, and must be exercised only to the extent warranted by the express provisions of the charter, or the nature and character of the busi-

[1] *In re* Wheeler, 2 Abb. Pr. (N. S.) 361.

[2] African M. E. Church v. Duru, 19 La. Ann. 302.

[3] Abbott v. American Hard Rubber Co., 33 Barb. 578.

[4] Clay v. Rufford, 5 De G. & S. 768.

ness, and when their acts are in excess of these powers, they are void.

Sec. 142. **The directors cannot change the character or objects of the corporation.** — The directors, by virtue of the power they possess, cannot change the entire character or purposes of a corporation. Any attempt of this character would be *ultra vires*, of which all parties interested would be required to take notice. Such authority is not involved in a general power to manage its business, and could only be exercised with the consent of each stockholder, or at least upon full satisfaction and compensation being made to such as may dissent.[1] No majority, however large, have a right to divert the joint capital to any purpose not consistent with the objects of the corporation.[2] And any fundamental change or alteration of the charter in respect to the original objects and purposes for which the corporation was created, cannot be obligatory on any member who objects; and increasing the capital stock of a corporation by a board of directors beyond the limits fixed by the charter would be *ultra vires*. If the power to change the capital is expressly given to the corporation, it must be exercised by the stockholders, and not by the directors. On this question the supreme court of the United States say: "A change so organic and fundamental as that of increasing the capital stock of a corporation beyond the limit fixed by the charter, cannot be made by the directors alone, unless expressly authorized thereto. The general power to perform all corporate acts refers to the ordinary business transactions of the corporation, and does not extend to a construction of the body itself, or to an enlargement of its capital stock. * * * Changes in the purpose and object of an association, or in the extent of its constituency or membership, involving the amount of its capital stock, are necessarily fundamental in their character, and cannot, on general principles, be made without the express or implied consent of the members. The reason is obvious. First, as it respects the purpose and object. This may be said to be the final cause of the

[1] Zabriskie v. Hackensack, etc., R. Co., 18 N. J. Eq. 178.

[2] Kean v. Johnson, 9 N. J. Eq. 401; Black v. Delaware, etc., R. Co., 22 id. 130.

association, for the sake of which it was brought into existence. To change this without the consent of the associates would be to commit them to an enterprise which they never embraced, and would be manifestly unjust. Secondly, as it respects the constituency, or capital and membership. This is the next most important and fundamental point in the constitution of a body corporate. To change it without the consent of the stockholders would be to make them members of an association in which they never consented to become such. It would change the relative influence, control and profit of each member. If the directors alone could do it, they could perpetuate their own power. Their own agency does not extend to such an act, unless so expressed in the charter or subsequent enabling act, and such subsequent act would not bind the stockholders without their consent or assent to it in some form."[1]

But, where authority in this respect is expressly conferred upon the directors by the general law of its constitution, or to be inferred from the charter or general acts of the legislature in existence at the time of the creation of the corporation, the directors would possess the requisite power to accept an amendment of the charter. And amendments of the charter, not in violation of its objects, may be accepted by the shareholders, but the trustees or directors have no powers in this respect, except such as may be conferred upon them; and where it is apparent that this authority is by law vested in the directors, they could, undoubtedly, accept an amendment of the original charter or act of incorporation; for instance, an amendment authorizing a subscription in real estate to be received by the company.[2]

On this subject TURNER, L. J., observes: "The great undertaking of these (*i. e.*, railway and similar) companies could not be carried out by private enterprise, and parliament has, therefore, with a view to public good, authorized the constitution of large bodies, acting by directors, for the purpose of carrying them out. But these bodies have no existence independent of the acts which create them, and they are cre-

[1] Railway Co. v. Allerton, 18 Wall. 233. See, also, Marlborough Man. Co. v. Smith, 2 Conn. 579.

[2] Dayton, etc., R. Co. v. Hatch, 1 Disn. 84; State v. Adams, 44 Mo. 570.

ated by parliament with special and limited powers, and for limited purposes. Whether parliament has wisely limited their powers for the purposes of their incorporation is not for us to consider. The fact of their being endued with such powers, and incorporated for such purposes, only shows that parliament did not think fit to intrust them with more extended powers, or to incorporate them for other purposes." [1]

SEC. 143. **Directors as agents.**—It is evident that the directors of a corporation, in whatever manner constituted, are the agents of the corporation, and, within the scope of the authority conferred by the laws or regulations of the company relating to them, their acts are the acts of the company. The general principles in fact of the law of agency are applicable to the relations between the company and its directors. But they are agents only so far as they have authority, by virtue of powers conferred, and of this authority and the extent or limit of it, parties dealing with these or other agents of the corporation would be required to take notice. These are open to public inspection, and constitute the power of attorney, and instructions to these agents, accessible to all parties dealing with them.[2] The familiar doctrine in such cases is, that although the party dealing with an agent is not required to take notice of private instructions communicated to him from the principal, in reference to his agency, he is required to take notice of a written authority and power of attorney, which he should know, from the circumstances of the case or the character of the agency, must exist. And where there is a special authority to do a particular act, or a general authority to do all acts relating to a particular matter, the agent may use all the necessary and appropriate means to carry out the purposes of the agency; and any person dealing with such an agent may rely upon the acts of such an agent, in executing the authority thus conferred, as obligatory upon his prin-

[1] Shrewsbury, etc., R. Co. v. London, etc., R. Co., 22 L. J. Ch. 682. On the doctrine of *ultra vires* in such cases, see Salomons v. Laing, 12 Beav. 339; East Anglian, etc., R. Co. v. Eastern, etc., R. Co., 11 C. B. 775; South Yorkshire R. Co. v. Great N. R. Co., 9 Ex. 55; 22 L. J. Ex. 304; Green's Brice's Ultra Vires, 28 *et seq.*

[2] Zabriskie v. Cleveland, etc., R. Co., 23 How. 381; Bank of Augusta v. Earle, 13 Pet. 587; Pearce v. M. & I. R. Co., 21 How. 441.

cipal.[1] All persons dealing with the agents of a corporation must be supposed to know the provisions of the fundamental laws or constating instruments of the corporation, and of the limitations therein contained relating to the authority of its agents, as these laws are usually accessible to all persons. But where agents act within the apparent scope of the authority conferred upon them, it will be presumed that their acts were authorized by the body they represent.[2] It has, however, been held that the doctrine that authority to make a contract, by an agent acting for an individual, will be implied from former employment of the same agent for the same purposes, has no application where the person assumes to act as agent for a corporation.[3] The reason of this distinction is, that in the first case the extent of the authority is generally known only between the principal and agent, but in the latter the authority is created by statute, or is a matter of record, to which all may have access who have occasion to deal with its officers.[4]

SEC. 144. **Distinction in Massachusetts.**—In Massachusetts a distinction has been made between the provisions of the charter in relation to the authority of directors and other officers, which parties are bound to know, and of by-laws, of which actual notice it is claimed should be brought home to the parties dealing with the agents.[5] This doctrine is based upon the distinction, that in the one case the means of knowledge is open and public, while in the other, it is private. This would, however, we apprehend,

[1] Story on Agency, § 73.

[2] Bissell v. Michigan Southern, etc., R. Co., 22 N. Y. 258. In this case, SELDON, J., observes: "There are, in England, a class of corporations organized under general laws, which do not provide the manner in which the objects and purposes of the corporation are to be effected, but leave this to be arranged by a deed of settlement between the corporators themselves. By this deed the companies prescribe and limit the powers and functions of their various officers, so far as they are left uncontrolled by the statute and the general laws of the kingdom. Now, it is plain that there is no analogy between an act which merely transcends the limits of this deed of settlement, and one which violates the provisions of this organic act. The deed of settlement is the private act of the shareholders, and its provisions have respect solely to their private interests. It is a mere power of attorney, and bears no resemblance to a law enacted with a view to the interests of the public. There is evidently no question of public policy involved, when the question is, whether the officers have exceeded their authority."

[3] Wyman v. Hallowell Bank, 14 Mass. 58.

[4] Salem Bank v. Gloucester Bank, 17 Mass. 1. See, also, State v. Commercial Bank of Manchester, 14 Miss. 237.

[5] Fay v. Noble, 12 Cush. 1.

be limited to those cases where the by-laws were adopted by the board of directors. But in this country organizations are generally formed under general statutes, by signing articles or certificates of association, etc., and these may provide for, and prescribe the duties of, officers and agents, and thereby such regulations would become a part of its organic law. In some cases, however, the general doctrine seems to have been maintained, that parties dealing with an agent would be bound even to take notice of the limitations of his authority contained in the by-laws, as being matters of record, and subject to examination by those dealing with the corporation.[1] But an examination of the cases will disclose the fact that this duty is only imposed upon third persons, or as they may be called, strangers to the corporation, when the act is one naturally incident to the powers of directors, or one not usually executed by them, or when an act was done by some officer of the corporation, which is usually incident to the duties of the directors. In such cases the party is fairly put upon inquiry as to whether the act is authorized, and fails to make proper inquiry at his peril. This rule was well illustrated in a New York case,[2] in which the plaintiff sought to recover $50,000 of the defendant corporation for alleged services for obtaining for and introducing to the Danville, etc., Railroad Company, contractors who would undertake to build its road, and for the conversion of certain municipal bonds, alleged to have been agreed to be delivered by said company in payment for said services. The defendant corporation was formed in 1869, under the general laws of Indiana and Illinois, by the consolidation of the Indianapolis, Crawsfordsville and Danville Railroad Company and the Danville, Urbank, Bloomington and Pekin Railroad Company. By the consolidation the defendant corporation assumed all the liabilities of the constituent roads. The president of the Indiana and a director of the Illinois corporation conducted the negotiation with the plaintiff and the president of the Illinois corporation, and by

[1] Adriance v. Roome, 52 Barb. 399; Wild v. Bank of Passamaquoddy, 3 Mason, 505; State v. Commercial Bank, 14 Miss.; Risley v. Indiana, etc., R. Co., 1 Hun, 202; North River Bank v. Aymar, 3 Hill, 262; Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 599; McCulloch v. Moss, 5 Denio, 567; Dabney v. Stevens, 40 How. Pr. 341; Salem Bank v. Gloucester Bank, 17 Mass. 1; Lowell Savings Bank v. Winchester, 8 Allen, 109.

[2] Risley v. Indianapolis, etc., R. R. Co. 1 Hun, 202.

authority of the latter offered the plaintiff the sum named above for the services. The defendants resisted the suit upon the ground that the president had no authority to make the contract in question. There was no evidence from which it could be inferred that the company, whose officer he was, had ever held him out or permitted him to represent himself as having authority of that kind, and the court in reversing the judgment below for the plaintiff, by DANIELS, J., said: "The president with whom the contract for the payment to the plaintiff was made had no special or direct authority from the company to enter into any agreement of that kind. * * The circumstance that he was president of the company was not of itself evidence of the existence of such authority, *for it does not ordinarily appertain to the duties of persons acting in that capacity.* He was at most the agent of the company created and existing under a special legislative act defining the rights and privileges of the body and the manner in which they should be enjoyed. This the plaintiff is to be regarded as knowing. For all persons dealing with the officers or agents of corporations are bound to know that they act either under its charter or by-laws, or the usages which may be shown to exist, defining the extent of their authority. They must, in doubtful cases, acquaint themselves with the extent of that authority, or otherwise submit to the consequences resulting from their omission to do that.[1] The charter of the company gave the immediate government and direction of its affairs to a board of thirteen directors, having power to elect one of their number president, a majority of whom constituted a quorum for the transaction of business. But it conferred no authority on the person who should be elected president to bind the company by his contracts.

His power in that respect appears to have been defined exclusively by the by-laws enacted by the company. And it was restricted to the management of all negotiations with other corporations, companies or individuals, touching their mutual interests and the claims of either party on the other, and to entering into or concluding all such agreements or contracts, with any of such

[1] North River Bank v. Aymar, 3 Hill, 262; Mechanics' Bank v. New York & N. H. R. R. Co., 13 N. Y. 599, 631, 634; McCulloch v. Moss, 5 Denio, 567; Adriance v. Roome, 52 Barb. 399; Dabney v. Stevens, 40 How. Pr. 341, 345, 346.

parties as should be approved by the board of the executive committee. This entirely withheld the power to make contracts binding on the company, unless the approval of the executive committee was first obtained for that purpose. And it deprived him of the power of entering into the agreement which the referee, upon sufficient evidence, has found was made by him with the plaintiff for the payment of the $50,000. The case of the *Merchants' Bank* v. *State Bank*[1] was relied upon as sustaining the validity of all contracts entered into by officers of corporations. But it clearly could not have been intended by that decision to sanction so broad an extension of the law affecting transactions of this description. Very broad propositions, it must be confessed, were stated in the opinion, but perhaps none too much so for the facts and evidence in the case which the court then decided. The one chiefly relied upon to sustain the contract in this case states the law to be, "that where a party deals with a corporation in good faith, the transaction not being *ultra vires*, and he is unaware of any defect of authority or other irregularity on the part of those acting for the corporation, and there is nothing to excite suspicion of such defect or irregularity, the corporation is bound by the contract, although such defect or irregularity in fact exists." But even this does not extend as far as the purposes of the plaintiff's case require, in order to sustain his recovery, for the president of the company was not invested with a defective or irregular authority to bind the company by his contracts. He had no authority whatever for that purpose. And where that is the case, and the officer has not been permitted to act as though he had the authority, there is nothing in that decision holding that he can bind the company.

But this proposition is inapplicable to the present case, because there was a circumstance brought to the plaintiff's knowledge, according to his own evidence, which ought to have excited his suspicions that the president had no power to bind the company by the agreement; for he says that Griggs, the president, and Wilson, one of the directors acting with him, had not brought with them proper evidence of their authority to contract for the build-

[1] 10 Wall. 604.

ing of this and the other road, and it was decided that the execution should be adjourned over for them to go home, convene their boards of directors, and get them to do whatever was necessary to be done about the contract for building the roads. If they could not, for want of power, enter into contracts for the construction of the road, which was a substantial part of what the corporation was created to do, it is difficult to see how it could, with any propriety, be assumed that the power existed without any action of the board, which would authorize the president to make the contract with the plaintiff upon which he has been allowed to recover.

The fact that the president could not, without specific authority, bind the company by one agreement should have been accepted as quite conclusive evidence of some want of authority to render the other obligatory upon it. One was a fair inference from the other.

SEC. 145. **Rule in England as to the authority of directors.**—The English doctrine in reference to the authority of directors is, "that persons dealing with a registered company are bound to acquaint themselves with the limits imposed by the deeds of settlement or articles of association, on the authority of the directors; yet, strangers to the company, dealing with directors, cannot be affected by by-laws, which may, under the articles, be from time to time made and varied by the directors, unless notice of such by-laws is proved." [1]

SEC. 146. **Delegation of their authority.**— The general principles of the laws of agency in respect to the delegation of the authority of the agent are applicable to the agents of corporations. Mr. Story on this subject says: "One who has a bare power or authority from another to do an act must execute it himself, and cannot delegate his authority to another; for this being a trust or confidence reposed in him personally, it cannot be assigned to a stranger whose ability and integrity might not be known to the

[1] Buckley, p. 427. See, also, Ernest v. Nicholls, 6 H. L. C. 401; Fountaine v. Carmarthen R. Co., L. R., 5 Eq. 316; Royal Bank of India's Case, L. R., 4 Ch. 252. Provisions of the charter and by-laws are sometimes deemed directory only. Bank of U. S. v. Dandridge, 12 Wheat. 64; U. S. v. Kirkpatrick, 9 id. 720; U. S. v. Van Zandt, 11 id. 184.

principal, or who, if known, might not be selected by him." [1] And it has been held in reference to the powers of directors as agents, that where power is conferred upon them involving the exercise of personal judgment and discretion, they cannot, without some express authority for the purpose, delegate this authority to another person.

In a case in New Hampshire, involving the question, the court says: "According to the uniform current of authorities, it would seem quite clear that an agent cannot delegate to another any portion of his power requiring the exercise of discretion or judgment, unless in the power conferred upon the agent is involved the power of substitution by the agent, in express terms, or at least by necessary implication. But no such power of substitution was conferred upon the directors in the present case. The by laws to be sure allowed 'the exercise of a general superintendence and control by the directors, or a majority of them, over the affairs of the corporation.' But this did not include the right to confer authority upon others to exercise the same power. Here was clearly no express power of substitution given to the directors, and there was nothing in the nature of the authority to be exercised which could render the aid of others necessary. No power of substitution is, therefore, to be implied." [2]

But the question whether the authority conferred and delegated calls for the exercise of such judgment or discretion, as comes within the general rule in such cases, or is a merely ministerial act, is frequently one that is difficult to determine. And in Massachusetts it was held that: "A board of directors of the banks of Massachusetts is a body recognized by law. By the by-laws of these corporations, and by a usage so general and uniform as to be regarded as a part of the law of the land, they have the general superintendence and active management of all the concerns of the bank, and constitute, to all purposes of dealings with others, the corporation. We think they do not exercise a delegated authority, in the sense in which the rule applies to agents and

[1] Story on Agency, § 13.

[2] Gills v Bailey, 21 N. H. 149. See, also, *Re* Leeds Banking, L. R., 1 Ch. App. 563. In Percy v. Millaudon, 3 La. 568, it was held that, where the power of discounting notes and bills was vested in the board of directors, they could not delegate this trust to an agent.

attorneys, who exercise the powers especially conferred upon them and no others. We think, therefore, that a board of directors may delegate authority to a committee of their own number, to alienate or mortgage real estate."[1] The charter or organic laws of the corporation usually confers the exclusive power of managing its affairs upon a board of directors. This, however, does not constitute it the corporation, and their acts evidenced by their votes, as shown by the record, are as complete authority to all its agents as if the appointment were by deed or other written instrument and authenticated by the corporate seal.[2]

SEC. 147. **Ratification of directors' acts.** — It is a familiar principle of the law of agency, that the principal may ratify an unauthorized act of an agent. This principle is also applicable to corporations and their agents. This ratification may be by a direct and express sanction of it, or by such action and conduct on its part, subsequent to the act, as to authorize the presumption that it has accepted or ratified the agent's acts.[3] But if the act done by the agent is entirely beyond any authority of the corporation to perform, it would be *ultra vires*, and generally void.[4] The ratification of the acts of an agent is, however, generally inferred from the acts of the corporation and the circumstances of the case. If the board of directors, or other agents on behalf of the corporation, make a contract and the corporation receives the benefits of such contract without objection, it would ordinarily be treated as a ratification of it, and the contract of the corpora-

[1] Burrill v. Nahant Bank, 2 Metc. (Mass.) 163. See, also, Percy v. Millaudon, 3 La. 568; Weston, Bank v. Gilstrap, 45 Mo. 419; Commissioners v. Bank of Buffalo, 6 Paige, 497. Directors have authority to empower one of their number to assign any securities belonging to the company. Stevens v. Hill, 29 Me. 133; Spear v. Ladd, 11 Mass. 94; Northampton Bank v. Pepoon, id. 288. And where directors have authority to appoint agents their authority does not necessarily cease with the termination of the authority of the board appointing them. Anderson v. Longden, 1 Wheat. 85; Exeter Bank v. Rogers, 7 N. H. 33; Brown v. County of Somerset, 11 Mass. 221; Thompson v. Young, 2 Ohio, 334.

[2] Bank of the U. S. v. Dandridge, 12 Wheat. 64; Fleckner v. Bank of the U. S., 8 id. 338.

[3] Lowell's Case; *Re* New Zealand Banking Co., L. R., 3 Ch. 131.

[4] Peterson v. Mayor, etc., 17 N. Y. 449; Dill. on Corp., §§ 385, 386. Ratification may be by express assent or conduct of the principal, inconsistent with any other supposition than that he intended to adopt and own the act done in his name. Story on Agency, §§ 239, 252. But no amount of ratification can give validity to an act prohibited by law. Martin v. Zellerbach, 38 Cal. 300.

tion.[1] Thus, where the directors of a railroad company allowed the president to purchase locomotives, and give bills in payment therefor, and they were used on the road of the company for more than three years, during the management thereof by the president, who had authority from the directors to manage the same in his discretion, and the directors afterward resumed the management, this acquiescence was held to be such a ratification as to be evidence of authority in the president to bind the company for the payment of the bills issued by the president in payment for such locomotives.[2] And in another case where a corporation allowed its officers to give notes for property, where the right to do so was doubtful, still the property having been taken possession of by the corporation, who used the same for legitimate corporate purposes, this was held to be a ratification of the acts of the officers.[3] But a ratification of an act cannot be inferred unless the stockholders *knew* what the act was. The rule is, that,

[1] On the subject of ratification of unauthorized acts of agents, see Trott v. Warren, 11 Me. 227; Episcopal Charitable Soc. v. Episcopal Church, 1 Pick. 372; Bank of Columbia v. Patterson, 7 Cranch, 299; Randall v. Van Vechten, 19 Johns. 60; Gooday v. The Colchester, etc., R. Co., 15 Eng. L. & E. 596; Magill v. Kauffman, 4 S. & R. 317; Canal Bridge v. Gordon, 1 Pick. 297; Bank of the U. S. v. Dandridge, 12 Wheat. 89; Union Bank of Maryland v. Ridgely, 1 Harr. & G. 392; Barrington v. The Bank of Washington, 14 S. & R. 421; Wild v. Passamaquoddy, 3 Mason (C. C.), 505; Smith v. Governor, etc., Bank of Scotland, 1 Dow. (Parl.) 27; Perkins v. Washington Ins. Co., 4 Cow. 645; Troy, T. & R. Co. v. McChesney, 21 Wend. 296; Warren v. Ocean Co., 16 Me. 429; Badger v. Bank of Cumberland, 26 id. 428; Davidson v. Bridgeport, 8 Conn. 472; Farmers' & M. Bank v. Chester, 6 Humph. 458; Hall v. Carey, 5 Ga. 239; Litchfield Iron Co. v. Bennett, 7 Cow. 234; Clark v. Boston Manuf. Co., 15 Wend. 256; Lohman v. New York, etc., R. Co., 2 Sandf. 39; City of Detroit v. Jackson, 1 Doug. (Mich.) 106; Bank of the State v. Comegys, 12 Ala. 772.

[2] Olcott v. Tioga Railway Co., 27 N. Y. 546.

[3] Moss v. Averell, 10 N. Y. 449. See, also, Corning v. Southland, 3 Hill, 552; Moss v. Rossie Lead Co., 5 id. 137; Conro v. Port Henry Iron Co., 12 Barb. 27; Clark's Ex'rs v. Van Riemsdyk, 9 Cranch, 158; Church v. Sterling, 16 Conn. 388; Chicago Building Soc. v. Crowell, 65 Ill. 453; Williams v. St. George's Harbor Co., 2 De G. & J. 547; Edwards v. Kilkenny, etc., R. Co., 26 L. J. C. P. 224; Phosphate of Lime Co. v. Green, L. R., 7 C. P. 43; Athenæum Life Assurance Co. v. Pooley, 3 De G. & J. 294; L. J. Ch. 119.

Whatever may be authorized by a corporation to be done may be ratified when done by an agent in excess of, or without authority. McLaughlin v. Detroit, etc., R. Co., 8 Mich. 100.

Ratification of the unauthorized acts of the president, where he executed a mortgage purporting to be on corporate property, individually, and sealed it with his private seal without special authority, may be presumed from the knowledge of the members of the board of directors, and their long continued acquiescence. Sherman v. Fitch, 98 Mass. 59; Lyndeborough Glass Co. v. Massachusetts Glass Co., 111 id. 315; Brown v. Winnissimmet Co., 11 Allen, 326; Krider v. Western College, 31 Iowa, 547.

before an act can be treated as the ratification of another, the party acting must have some knowledge or information at least of the existence of the act in all its essential details. Thus, in a case the leading features of which are given in a previous section,[1] one of the grounds upon which the plaintiff sought to enforce his claim was, that the president, at the time the contract sought to be enforced was entered into, accepted an order drawn by the contractors upon him, payable to the plaintiff for county, city and township bonds, to the amount of $36,666.66, bearing ten per cent interest. The claim of the plaintiff, and the rules applied thereto are clearly stated by DANIELS, J., and, as the case is well considered, and is believed to embody the true rule in such cases, we give it here. He said: "The plaintiff, however, insists that the making of the contract for the construction of the road, and with the authority afterward conferred for the purpose by the company, in effect adopted and ratified the agreement which the president made with him for the payment of the $50,000. But that cannot be so, because there was nothing in the agreement made for building the road, by which even the existence of the one made with him was assumed. It, in no way, entered into the agreement for the construction of the road, and was not brought to the notice of the board of directors in any way whatever. And they cannot, with any propriety, be held to have adopted or ratified, by that act, another of an entirely different nature, which they knew nothing about. The fact that it was brought to Wilson's notice, at the time when the agreement with the plaintiff was made, was not notice to the company, or the board of directors, for any such purpose. The board was the body which acted, and no notice was given to it of the president's attempt to bind the company for the payment of the money to the plaintiff. Before one act can be accepted as the ratification or confirmation of another, the party acting must have some knowledge or information, at least, of its existence.[2] Another circumstance relied upon as a ratification of the act, by which the agreement with the plaintiff was made, is the admission contained

[1] Risley v. Indianapolis, etc., R. R. Co., *ante*.

[2] Brass v. Worth, 40 Barb. 648; Hays v. Stone, 7 Hill, 128, 131, 132; Keeler v. Salisbury, 33 N. Y. 648; Smith v. Tracy, 36 id. 79.

in the answer, that the order received by him was accepted by the company. But this admission is not sufficient for the purpose, because it in no way concedes that the order had any connection with the agreement. It is not admitted that the order was drawn, accepted or received to secure the performance of the agreement, or that it had any relation whatever to it, or that the company knew any thing of it. The admission is that it promised, at the request of the contractors, to deliver the plaintiff the bonds, provided they became entitled to them by the performance of their contract; certainly no ratification of the agreement with the plaintiff can be inferred from such a promise. And there is nothing in the evidence extending its effect in that respect. The order was drawn by the contractors who agreed to build the railroad, and it requested and directed the delivery to the plaintiff of a portion of the bonds which they were, by their contract, to receive by way of compensation for what they were to do in its performance. It indicated a payment by them upon some obligation they had incurred to the plaintiff, instead of the securing or settlement of a demand existing in favor of the plaintiff against the railroad company. Neither by the import or terms of the order could the company have inferred from it that it was given or accepted to secure any debt the plaintiff claimed to have against the company. And for that reason, *as long as the company, or its board of directors, had no notice that it was to be held by the plaintiff as security for the payment of his demand, its acceptance, or the promise admitted in the answer, constituted no ratification or confirmation of that demand.* The circumstances under which the order seems to have originated exclude the presumption that notice of its purpose or use could not have been given to the board of directors. Wilson, who aided the plaintiff in procuring the contractors who were to build the road, and received an order himself for $10,000 of the county, city and town bonds, and who evidently had no motive to misrepresent the facts, was sworn and examined as a witness on his behalf. And in the course of his evidence, he stated that the contractors agreed at first to build the railroad for $5,000 per mile, in county, city and town bonds, in addition to the other compensation it was agreed they should receive. And after that, without making any reduction in the

other amount, the payment in those bonds was increased to $6,500 per mile. This, he said, was done at the instance of Clark R. Griggs, who was the president of the company. And the object was to charge the excess upon the company for building its road, and through the contractors to divide the excess between himself, Wilson, a director and president of the other railroad company, the plaintiff, and the contractors. And he stated that the division was so far made, at that time, as to have orders drawn for $120,000, in round numbers, by the contractors, one being in his own favor for $10,000, and the residue for equal amounts, one in favor of the president of the company, another in favor of Wilson, one of its directors, and the other in favor of the plaintiff. And these orders were then accepted by Mr. Griggs, and delivered to the persons who were to receive them, he receiving the one intended for himself. The witness was corroborated in this statement, by the evidence of the defendant's witness, Alton, who was one of the contractors. For he says that the price in bonds was first fixed at $5,000 per mile for building the road, and afterward advanced, on the contractors' learning that the work would probably prove more expensive than at first it was supposed to be, so that they should receive $200 or $300 more per mile in bonds. Then he said, that Griggs said they could raise $6,500 per mile. That he understood how much the contractors were to have net, and that they were to pay a certain amount for himself, the plaintiff and others, of the bonds, as a commission or brokerage. And that it was arranged between Griggs, Wilson and Risley, that a certain portion was to be allowed to them. He then added that he was very confident, that, in the arrangement he had with Griggs, it was not spoken of, until it was arranged between them how it was to be divided. To carry it out, he stated that an order was first drawn for the entire $120,000, and accepted by Griggs. But that was afterward divided into the four orders mentioned by Wilson, so that each could have his own share at once, without being at all dependent upon the honor which is supposed to exist in such cases, but nevertheless, has sometimes proved to be disregarded. The circumstances very decidedly sustain the probabilities of these statements. For, the orders were all made out by the plaintiff, signed

by the contractors, accepted by Griggs, and distributed in the manner mentioned at the time when the contract was entered into. The plaintiff, though afterward on the stand as a witness, made no attempt to deny these statements, but simply left the case upon his former evidence, in which he said that he did not know whether the contractors received any consideration for drawing these orders; and Griggs, while he denies being a party to any such arrangement, still admits that the orders were drawn, accepted and divided as the others stated they were, and that he received one for between $36,000 and $37,000. He also says that he did not inform the board of directors that he had received such an order, neither was the counsel of the company, who was with him in the city attending to the completion of the contract to build the road, informed of it, or of the arrangement made for this division of $120,000 of the bonds. In view of the great improbability that the contractors would voluntarily have proposed to give away so large a portion of their compensation, if it had even been designed they should receive it as such, and the reasons which must have operated upon Mr. Griggs, by way of inducing him to deny his complicity in this piece of inexcusable knavery, the direct evidence of the two witnesses, swearing to the contrary, and the inherent probability of the truth of their statements, no reliance can be placed upon his denial. The whole weight of the case is against him on this subject, and it must be concluded, that, for a consideration he provided the contractors with, he enabled them to compensate himself and Wilson for a shameless violation of the duties which the confiding stockholders and directors had intrusted them with performing. After being implicated in that misconduct, no reason could exist for supposing that he would so far explain the matter to the board of directors as to secure any action of theirs amounting to a ratification of that portion of the transaction in which the plaintiff was allowed even the appearance of profiting. And certainly his acceptance of the orders as president of the company could be attended with no such results, for, as long as he had no authority to make the agreements to pay the plaintiff the $50,000 for procuring the contractors, he was equally without authority to bind the company by a ratification of it."

SEC. 148. **Instances of acts which amount to a ratification.** — Where an insurance company, whose capital was fixed by its charter, which, however, gave authority to the stockholders to increase the stock to a certain amount, and the directors issued the additional amount without a formal or lawful vote of the stockholders, but they had received dividends upon the basis of the additional stock, having knowledge thereof, it was held to constitute a complete ratification of the issue. In a case involving this question, DILLON, J., observes: "It is our opinion that the original charter of the company contemplated that any increase of the capital stock beyond $1,000,000 should be assented to by the stockholders as distinguished from the directors. It being admitted that the shares of stock owned by the defendant were no part of the $1,000,000 first issued, but were part of the stock issued by it in excess of the $1,000,000, and prior to the amended charter of March 25, 1869, this stock would not be legal, and no action could be maintained to recover the price of it, unless the stock had become legal stock by matters subsequently occurring, or unless the defendant, under the facts proved, is estopped to set up this objection. The legislature authorized a capital of $5,000,000, but required the assent of the stockholders to any increase beyond one million. The amount issued at no time had reached the $5,000,000. No mode of procuring the assent of the stockholders to the increase of stock is prescribed by the charter. It is conceded that in a meeting of the stockholders of the original million of stock, duly convened, a majority might determine upon such increase and bind the minority. On January 9, 1868, the directors resolved upon an increase of the capital stock to $5,000,000. On November 6, 1868, the defendant subscribed for his stock. On the 13th of January, 1869, there was a regular annual meeting of the stockholders, to which a report was made, showing that $3,000,000 of stock had up to that time been issued, and $3,116,000 of stock was voted at that meeting for directors. The evidence shows that over $800,000, or, in round numbers, four-fifths of the first million of stockholders, were present in person or by proxy, and voted at this meeting for directors. No objection then or ever was made to the increase of stock, and the old stockholders and the new

voted indiscriminately, and the proceeds of all sales of stock were treated and invested by the directors as capital until the company ceased to do business. Two dividends were made in 1869, and one in 1870, upon all the stock, which in each of those years exceeded $4,000,000. The defendant in February, 1870, received two of these dividends. On the 25th of March, 1869, the charter was amended, authorizing *inter alia*, the directors to increase the stock.

After this, as well as before, the directors repeatedly and always recognized the validity of all the stock which had been issued. The defendant, it may be admitted, had no personal knowledge of any increase of capital stock, or of the passage of the amended charter, until after this suit was brought, although the agent who acted for him in his absence in respect to his stock had such knowledge. * * * From the proof in this case we find that at least four-fifths of the original million of stockholders did know of and assent, as early as January, 1869, to this increase of stock, and are of the opinion that the requisite assent of the stockholders can be shown by their conduct and acquiescence, and need not be established by any formal vote or resolution."[1]

Sec. 149. **Effect of knowledge of unauthorized acts.**— It is a well-settled rule of the law of agency, that where the agent exceeds his authority, but the principal, with knowledge of the fact, neglects to promptly disavow the act, it is a ratification of what has been done, and is equivalent to an original authority to the agent; and this rule is as applicable in case a corporation is the principal as in other cases.[2] And where the president of a railroad company established and advertised tariffs or rates of fare and freight on the railroad, and the corporation received and appropriated the rates thus established without objection, this was held to be a ratification of the acts of the president, and equivalent to an original au-

[1] Payson v. Stoever, 2 Dill. (C. C.) 427. See, also, New Hope & D. B. Co. v. Phœnix Bank, 3 N. Y. 156; Salem Bank v. Gloucester Bank, 17 Mass. 1.

[2] Kelsey v. National Bank, 69 Penn. St. 426; Bredin v. Dubarry, 14 S. & R. 30; Gordon v. Preston, 1 Watts, 387; Bank of Penn. v. Reed, 1 W. & S. 101; Christian University v. Jordon, 29 Mo. 68.

thority.[1] A recent case in California illustrates the doctrine of ratification of the acts of an agent by the directors. The president of a ditching company, who was its general managing agent, purchased, in the name of the company, a house for the purpose of using it for offices and the meetings of the company, and also as a boarding-house for its laborers; and executed a mortgage for the purchase-money in its name, sealed with the corporate seal. As agent of the company, he took possession of it, and it was used several times for the meetings of its directors and for other corporate purposes. About six weeks after its purchase, a resolution was offered at a meeting of the directors, declaring the contract of purchase legal and valid, but it failed to be adopted. Subsequently, the house was consumed by fire, and a suit was brought against the company to recover the balance of the purchase-money. The court say: "The authority of Nixon [the president] to make the contract, as the agent of the company, we think sufficiently appears, and if this point were doubtful, the acts of the company amounted to a ratification. Nixon, as agent of the defendants, entered into possession immediately after the purchase; the trustees held their meeting in the house, nothing is said as to his want of authority till some six weeks afterwards when, at a meeting held on the premises, the resolution approving the contract was offered and rejected. The entry of this resolution comes in a very questionable shape, and is entitled to but very little weight, * * * and is, at least, a very singular mode of repudiating a contract. It would have been more in accordance with correct notions of propriety and justice if a resolution refusing to accept the contract had been passed, accompanied by an offer to cancel the deed, which had not been recorded, and a return of the property of which they were in possession."[2]

[1] Hilliard v. Goold, 34 N. H. 230; Pennsylvania, etc., Co. v. Dandridge, 8 G. & J. 248.

But ratification will not be presumed unless the directors or trustees had full knowledge of the act. Dedham Savings Institute v. Slack, 6 Cush. 408.

And an officer or agent cannot ratify his own act and thereby bind the principal. Hotchin v. Kent, 8 Mich. 526.

If the principal enjoys the benefit of the agent's acts, it would not constitute a ratification unless it was done with a knowledge of the character of them. Yellow Jacket Min. Co. v. Stevenson, 5 Nev. 224. See, also, Risley v. Ind. R. R. Co., *ante*.

[2] Shaver v. Bear River, etc., Co., 10 Cal. 396.

SEC. 150. **Effect of ratification.**—The general doctrine in reference to the unauthorized acts of agents is, that the ratification is equivalent to original authority to act in the matter which has been ratified. If a corporation ratify the unauthorized acts of its agent, the ratification is equivalent to a previous authority, as in case of natural persons. No maxim is better settled in reason and law than the maxim *omnis ratihabitio retrotrahitur, et mandato priori equiparatur;* at all events, when it does not prejudice the rights of strangers.[1] And this doctrine is equally applicable to the directors as to other agents of a corporation.

The ratification operates as though the authority to do the act had previously existed. But the intervening rights of third parties cannot be affected by the subsequent ratification.[2]

SEC. 151. **Directors under the national banking law.**—Under our national banking laws it is provided that the associations incorporated thereunder shall have power "to elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier and other officers, define their duties, require bonds of them, and fix the penalties thereof, dismiss such officers, or any of them, at pleasure, and appoint others to fill their places."[3]

They also provide that such a body corporate shall have power "to prescribe, by its board of directors, by-laws not inconsistent

[1] Fleckner v. United States Bank, 8 Wheat. 363; Essex T. Corp. v. Collins, 8 Mass. 299; Haden v. Middlesex T. Corp., 10 id. 403; Salem Bank v. Gloucester Bank, 17 id. 28; White v. Westport Cotton Man. Co., 1 Pick. 220; Bulkley v. Derby Fishing Co., 2 Conn. 252; White v. Same, id. 260; Hoyt v. Thompson, 19 N. Y. 207; Peterson v. Mayor of New York, 17 id. 449; Baker v. Cotter, 45 Me. 236; Church v. Sterling, 16 Conn. 388; Bank of Pennsylvania v. Reed, 1 W. & S. 101; Hayward v. Pilgrim Society, 21 Pick. 270; Dispatch Line of Packets v. Bellamy Man. Co., 12 N. H. 205; Planters' Bank v. Sharp, 4 S. & M. 75; Burrill v. Nahant Bank, 2 Mass. 167; Fox v. Northern Liberties, 3 W. & S. 103; Bank of Kentucky v. Schuylkill Bank, 1 Pars. Sel. Cas. 267; New Hope Bridge Co. v. Phœnix Bank, 3 N. Y. 156; Everett v. United States, 6 Port. (Ala.) 166; Medomak Bank v. Curtis, 24 Me. 38; Whitwell v. Warner, 20 Vt. 425; City of Detroit v. Jackson, 1 Doug. (Mich.) 106; Merchants' Bank v. Central Bank, 1 Ga. 428; Hoyt v. Bridgewater, etc., Co., 6 N. J. Eq. 253; Stuart v. London R. Co., 15 Beav. 513; 10 Eng. L. & Eq. 57; Maclae v. Sutherland, 3 E. & B. 1; 25 Eng. L. & Eq. 92; Reuter v. Electric Tel. Co., 6 E. & B. 341; 37 Eng. L. & Eq. 189, Emmet v. Reed, 8 N. Y. 312. See, also, Baker v. Cotter, 45 Me. 236; Walworth Co. Bank v. Farmers' L. & T. Co., 16 Wis. 629.

[2] Cook v. Tullis, 18 Wall. 332; Wood v. McCann, 7 Ala. 806; Taylor v. Robinson, 14 Cal. 396; McCracken v. San Francisco, 16 id. 591.

[3] U. S. Rev. Stat., 1874, p. 999.

with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed." [1]

They further provide that such corporations shall have power "to exercise, by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin and bullion; by leaving money on personal security; and by obtaining, issuing and circulating notes." [2]

SEC. 152. **Personal liability of directors.**—We have said that the directors of a corporation are the agents of it. But as a general rule they are only required in the management of its affairs to keep within the limits of the powers conferred upon them, and to exercise good faith and honesty. They only undertake, by virtue of the duties which they assume, to perform these duties according to the best of their judgment, and with reasonable diligence; and a mere error in judgment on the part of a director, will not ordinarily subject him to personal liability therefor. And unless there has been some violation of the charter or the constating instruments of the company, or unless there is shown to be a want of good faith, or a willful abuse of discretion, there will be no personal liability, nor can the acts of such officers be controlled by any court at the instance of a stockholder. [3]

[1] U. S. Rev. Stat., 1874, p. 999.

[2] Id.

[3] Smith v. Prattville Manuf. Co., 29 Ala. 503.

In Spering's Appeal, 71 Penn. St. 11, Judge SHARSWOOD observes:

"It is by no means a well-settled point what is the precise relation which directors sustain to the stockholders. They are, undoubtedly, said in many authorities to be trustees, but that, as I apprehend, is only in a general sense, as we term an agent or any bailee intrusted with the care and management of the property of another. It is certain that they are not technical trustees. They can only be regarded as mandataries, persons who have gratuitously undertaken to perform certain duties, and who are, therefore, bound to apply ordinary skill and diligence, but no more. Indeed, as the directors are themselves stockholders, interested as well as all others that the affairs and business of the corporation should be successful, when we ascertain and determine that they have not sought to make any profit not common to all the stockholders, we raise a strong presumption that they have brought to the administration their best judgment and skill. Ought they

Where the directors of an insurance corporation had fraudulently permitted false statements to be officially made as to the condition of the company, it was held that they were personally liable to a party who had suffered damage thereby.[1] But it has been held that a director was not liable for a representation false in fact, made in published circulars of the corporation on which his name appeared as a director, but which representation was not known to him to be false.[2]

to be held responsible for mistakes of judgment or want of skill and knowledge? * * * We are dealing with their responsibility to stockholders, not to outside parties, creditors and depositors. Upon a close examination of all the reported cases, although there are many dicta not easily reconcilable, yet I have found no judgment or decree which held directors to account, except when they have themselves been personally guilty of some fraud on the corporation, or have known and connived at some fraud in others, or where such fraud might have been prevented had they given ordinary attention to their duties. I do not mean to say by any means that their responsibility is limited to these cases; there may exist such a case of negligence or of acts clearly *ultra vires* as would make perfectly honest directors personally liable. * * * While directors are personally responsible to the stockholders for any losses resulting from fraud, embezzlement, or willful misconduct, or breach of trust, for their own benefit and not for the benefit of the stockholders, for gross inattention and negligence, by which such fraud has been perpetrated by agents, officers or directors; yet they are not liable for mistakes of judgment, even though they may be so gross as to appear to be absurd and ridiculous, provided they are honest, and provided they are fairly within the scope of the powers and discretion confided to the managing body. * * * Conceding that the directors did violate the charter, it was a question upon which with all due care they might have made an honest mistake, and, moreover, it appears that they acted throughout by advice of their counsel. It is well settled that trustees will be protected from responsibility under such circumstances."

The same doctrine is maintained in Scott v. De Peyster, 1 Edw. Ch. 513. See, also, Godbold v. Mobile Bank, 11 Ala. 191; Bank of St. M. v. St. John, 25 id. 566; Smith v. Prattville Man. Co., 29 id. 503; Pontchartrain R. Co. v. Paulding, 11 La. 41; Christ Church v. Barksdale, 1 Strobh. Eq. 197; Williams v. Gregg, 2 id. 316; Gratz v. Redd, 4 B. Monr. 178; Lexington R. Co. v. Bridges, 7 id. 559; Bayless v. Orne, 1 Freem. (Miss.) Ch. 174; Hodges v. New England Screw Co., 1 R. I. 312; Knowlton v. Congress Spring Co., 57 N. Y. 518; *Re* European C. R. Co., Syke's Case, L. R., 13 Eq. 255; Green's Brice's Ultra Vires, 408 *et seq.*

A cause of action against the officers of a corporation individually is assignable. Bonnell v. Wheeler, 16 Abb. Pr. (N. S.) 81.

Where officers may maintain actions for contribution from other officers, see Nickerson v. Wheeler, 118 Mass. 295.

[1] Salmon v. Richardson, 30 Conn. 360; Calhoun v. Richardson, id. 229; Peck v. Gurney, L. R., 6 H. L. 377; Cornell v. Hay, L. R., 8 C. P. 328; Hallows v. Fernie, L. R., 3 Eq. 520; Henderson v. Sacon, L. R., 5 Eq. 249; Stewart v. Austin, L. R., 3 Eq. 299; Ship Crosskill, L. R., 10 Eq. 73; Mabey v. Adams, 3 Bosw. 346.

And where a corporation has no authority to borrow money, but the directors receive money, and give a receipt therefor as if lent to the corporation, they are personally liable therefor. Richardson v. Williamson, L. R., 6 Q. B. 276; Weeks v. Propert, L. R., 8 C. P. 427.

[2] Wakeman v. Dalley, 61 N. Y. 27. See, also, Bruff v. Mali, 36 id. 200; Arthur v. Griswold, 55 id. 400;

SEC. 153. The directors are generally only bound in the management of the affairs of the corporation to use reasonable diligence and prudence, that is, to such diligence and prudence as men usually exercise in the management of their own affairs of a similar nature, and, if they act in good faith, they are not personally responsible to the stockholders for a loss that may be sustained thereby.[1] But a director may be liable, personally, in damages for his fraudulent acts;[2] and he may be sued by one damaged by his assent to a dividend amounting to more than the profits, even without joining with him the company as a defendant.[3] And it has been held that a director is personally responsible, not only for fraud and willful malfeasance, but also for his negligence, especially gross negligence. Thus, it has been held that every director would be personally liable for the fraudulent action of a board which he might have averted by an attend-

Cazeau v. Mali, 25 Barb. 578; Newberry v. Garland, 31 id. 121; Cross v. Sackett, 2 Bosw. 617; Mabey v. Adams, 3 id. 346; Morse v. Swits, 19 How. Pr. 275.

As to the liability of directors to stockholders and creditors in equity, see *post*, chap. 16.

[1] Scott v. De Peyster, 1 Edw. Ch. (N. Y.) 513; Hodges v. N. E. Screw Co., 3 R. I. 9.

But they cannot benefit themselves to the prejudice of creditors. Richards v. New Hampshire Ins. Co., 3 Wend. 130; People v. Ballou, 12 id. 277; Talmadge v. Fishkill Iron Co., 4 Barb. 382; Butts v. Wood, 38 id. 181.

The directors of a banking or other corporation are, in the management of its affairs, only trustees for its creditors and stockholders, and are bound to administer its affairs according to the term of its charter and in good faith. If they fail in either respect they are liable to the party in interest, who is injured by it, for a breach of trust, and may be required to account to him in a court of chancery.

Hodges v. New Eng. Screw Co., 1 R. I. 312; Bank of St. Mary's v. St. John, 25 Ala. 566. But see Patterson v. Baker, 34 How. Pr. 180; Winter v. Baker, id. 183.

The members of the governing body are the agents of the corporation; and if they exercise their functions for the purpose of injuring its interests and alienating its property, they are personally liable for any loss occasioned thereby. Attorney-General v. Wilson, 1 Craig & Ph. 1; 10 L. J. (N. S.) 53; 4 Jur. 1174.

And if a director of a manufacturing company has assented to a dividend of more than the profits, he may be sued for such violation of duty without joining with him the company as co-defendant. Hill v. Frazier, 22 Penn. St. 320. See, also, Kimmel v. Stoner, 18 id. 155.

[2] Crook v. Jewett, 12 How. Pr. 19.

If a director of a corporation knowingly issues or sanctions a prospectus containing false statements of material facts, the natural tendency of which is to deceive and to induce the public to purchase the corporate stock, he is liable to the damages sustained by one who, relying upon and induced by the statements, makes such a purchase. And it is sufficient to sustain the action that the false statements were one, although not the sole inducement to the purchase. Morgan v. Skiddy, 62 N. Y. 319.

[3] Hill v. Frazier, 22 Penn. St. 320.

ance at a board meeting, but by reason of his negligence or willful inattention to his duty, he failed to do; or if he attends the meeting, but fails to use his best judgment in opposing fraudulent acts, he would be liable for all the injurious consequences of his failure of duty, and which he might with reasonable care have averted. "Every absent director," observes Justice MARTIN, "is equally responsible in case of extreme neglect in his attendance at the board, or in case after the act comes or must have come to his knowledge, had he used due diligence, he does not labor to avert its injurious consequences." [1] But, although directors may be liable and required to indemnify parties injured on account of their fraud and abuse of trust, they cannot be held personally responsible, where the injury is the result of mere misjudgment, or only unwise, extravagant, improvident, slightly negligent, or a simple error in the performance of their duties. The only effectual remedy in such cases is to change the board and thereby the management of the corporate affairs.

SEC. 154. **The fiduciary character of directors.**—It will be apparent from what has been said that the relation not only of principal and agent exists between the corporation and the directors, but also the relation of trustee and *cestui que trust* exists between them and the stockholders and creditors. Accordingly

[1] Per MARTIN, J., in Percy v. Millaudon, 3 La. 575. See, also, United Society v. Underwood, 9 Bush, 617.

[2] Sears v. Hotchkiss, 25 Conn. 171; Howe v. Duel, 43 Barb. 504; Belmont v Erie R. Co., 52 id. 637; Western Bank of Scotland v. Bairds, L. R., 4 Ch. 381; Turquand v. Marshall, id. 376; Green's Brice's Ultra Vires, 406 *et seq.;* Spering's Appeal, 71 Pa. St. 11; Godbold v. Mobile Bank, 11 Ala. 191; Smith v. Prattville Man. Co., 29 Ala. 503; Bank of St. M. v. St. Johns, 25 Ala. (N. S.) 566; Ponchartrain, etc., R. Co. v. Paulding, 11 La. 41.

It has recently been held in England that where directors assume to act for a company, they impliedly warrant their authority so to do; and that where they stated that they had appointed an agent with certain powers, they were personally liable without any proof of actual warranty, as that would be implied from the appointment of the agent. Colonial Bank v. Cherry & McDougall, 17 W. R. 1031. So, directors may be liable for the fraudulent acts of co-directors, which they might have prevented. Joint-Stock Discount Co. v. Brown, 17 W. R. 1037.

Where the directors of a railway assumed to act, by accepting bills of exchanga, they were held personally liable. Owen v. Van Ulster, 10 C. B. 318; Roberts v. Button, 14 Vt. 195. See, also, Turquand v. Marshall, L. R., 6 Eq. 112. As to personal liability of directors for a check drawn by them in the name of the company, and signed by their individual names, where they were held personally liable, see Serrell v. Derbyshire, etc., R. Co., 19 L. J. 371; S. C., 9 C. B. 811.

they have no right to enter into or participate in any combination the object of which is to divest the company of its property and obtain it for themselves, to the prejudice of the members or creditors.[1] Nor are they entitled to any share of capital stock, or to any dividends of the profits, until its creditors are paid. The property of the corporation, in equity, is regarded as held in trust for the payment of its debts; and a sale of its capital stock, and a division of the proceeds among the directors, will not defeat the rights of creditors; but they may proceed in equity to compel the directors to contribute *pro rata* out of the moneys so received and in their hands.[2] On this subject the supreme court of the United States say: "Equity regards the property of a corporation as held in trust for the payment of the debts of the corporation, and recognizes the right of creditors to pursue it into whosoever possession it may be transferred, unless it has passed into the hands of a *bona fide* purchaser; and the rule is well settled that the stockholders are not entitled to any share of the capital stock nor to any dividend of the profits, until all the debts of the corporation are paid."

SEC. 155. **Same continued.** — This doctrine would, of course, be applicable in all cases of fraudulent or wrongful disposition or appropriation of the corporate funds or property, by directors. For as agents and trustees of the corporation as well as the stockholders and creditors, they would be bound to perform their duties and administer the trust in good faith; and any portion of the corporate property wrongfully received by them would be liable to the satisfaction of the claims of creditors and stockholders; and such directors would be required, in a proper proceeding, to

[1] Jackson v. Ludeling, 21 Wall. 616. But if a corporation fails to legally organize under the provisions of a statute, and does not become a corporation *de jure*, and cannot legally issue stock, the issue of such stock by the directors will not alone make the directors liable for a fraudulent conspiracy to issue worthless stock. Nor can an intent to deceive be inferred from these circumstances, and the fact that the nominal is largely in excess of the actual capital. Nelson v. Luling, 62 N. Y. 645.

[2] Story's Eq. Jur., § 1252; Mumma v. Potomac Company, 8 Pet. 286; Wood v. Dummer, 3 Mason, 308; Voce v. Grant, 15 Mass. 522; Spear v. Grant, 16 id. 14; Curran v. Arkansas, 15 How. 307.

[3] The Chicago, etc., R. Co. v. Howard, 7 Wall. 392. See, also, Hale v. Bridge Co., 8 Kans. 466; Jones v. Terre Haute R. Co., 29 Barb. 359; Barton v. Port Jackson R. Co., 17 id. 397.

account for the same. They have no right to enter into or participate in any combinations the object of which is to divest the corporation of its property, and obtain it for themselves, to the prejudice of the members or creditors.[1]

Neither have they the power to give away the corporate funds, or deprive the corporation of its means to accomplish the purposes for which it was chartered;[2] or dispose of the stock at less price than fixed by the charter;[3] or in a manner not provided by the charter;[4] or to disregard a by-law imposing limitations on their powers; or to amend such by-laws or other regulations of the corporate body, so as to confer greater authority upon them. And a breach of duty in these respects would subject them to personal liability.[5] And a resolution of a board of directors, the design and effect of which is to transfer the property of the company to themselves, by way of inducement to pay their just debts to the company, is void.[6] So, for any willful breach of their trust, or misapplication of the corporate funds, or for any gross neglect of or inattention to their duties as trustees or directors, they are liable to any person who is damaged thereby.[7]

SEC. 156. **They cannot manage the affairs of the corporation for their personal benefit.** — The fiduciary character of directors referred to is such that the law will not permit them to manage the affairs of the corporation for their personal and private advantage, when their duty would require them to work for, and use reasonable efforts for the general interests of the corporation and its stockholders and creditors. The confidence reposed in them cannot be thus abused with impunity; and they cannot use their position to promote their own interest in respect to any thing thus intrusted to them, to the prejudice of creditors or other members. "Nor is it possible to limit the duty of a director of a corporation, in this respect, to the time while he was acting as director under any

[1] Jackson v. Ludeling, 21 Wall. 616. See *post*, chap. 14.
[2] Bedford R. Co. v. Bowser, 48 Penn. St. 29.
[3] Sturges v. Stetson, 3 Phil. (Penn.) 304.
[4] Royalton v. Turnp. Co., 14 Vt. 311.
[5] Stevens v. Davison, 18 Gratt. 819.
[6] Hilles v. Parrish, 14 N. J. Eq. 380.
[7] Robinson v. Smith, 3 Paige, 222. See, also, Hodges v. New England Screw Co., 1 R. I. 312; Butler v. Cornwell Iron Co., 2 Conn. 335; Colquitt v. Howard, 11 Ga. 556; Percy v. Millaudon, 3 La. 568; United Society v. Underwood, 9 Bush, 617. See, also, cases cited under the two previous sections.

special delegation of power, or in attendance at meetings of the board. He cannot, while director, divest himself of the knowledge which he has acquired, in confidence, of corporate affairs, or of the value of corporate property, nor be allowed to use it to his own advantage.[1]

SEC. 157. **Contracts by directors with corporations.** — Courts of equity will regard with great jealousy the contracts made between directors and the corporation. And as a general rule such contracts are voidable at the instance of the company or stockholders; and this rule has been held to apply to cases where the majority of the directors in one corporation contract with another corporation, in which they are also directors.[2] It is their duty to act for the best interests of the company, and if they enter into a contract with the company, their duty as officers is in conflict with their duty as individuals. And the same doctrine has been held to apply, whether they are a party to the contract in its inception, or whether they subsequently acquire an interest in it;[3] as the rule is, that directors cannot acquire an interest, directly

[1] Hoyle v. Plattsburgh, etc., R. Co., 54 N. Y. 314. See, also, Koehler v. Black River Falls Co., 2 Black (U. S. C. C.), 715; Risley v. Indiana, etc., R. Co., 1 Hun, 202; Gray v. N. Y. & V. S. Co., 3 id. 383; Redmond v. Dickerson, 1 Stockt. 597; Hoffman Steam Coal Co. v. Cumberland Coal Co., 16 Md. 456; Goodin v. Whitewater Canal Co., 18 Ohio St. 169; Port v. Russell, 36 Ind. 60; Buell v. Buckingham, 16 Iowa, 284; San Francisco R. Co. v. Bee, 48 Cal. 398; Drury v. Cross, 7 Wall. 302; Chicago, etc., R. Co. v. Howard, id. 392; Jackson v. Ludeling, 21 id. 616; Heath v. Erie R. Co., 8 Blatchf. 347; European, etc., R. Co. v. Poor, 59 Me. 277; Richards v. New Hampshire Ins. Co., 43 N. H. 263; Fuller v. Dame, 18 Pick. 472; Peabody v. Flint, 6 Allen, 52; Hodges v. New England Screw Co., 1 R. I. 312; Butts v. Woods, 37 N. Y. 317; S. C., 38 Barb. 181; Coleman v. Second Ave. R. Co., 38 N. Y. 201; Ogden v. Murray, 39 id. 207; Bliss v. Matteson, 45 id. 22; S. C., 52 Barb. 348; Scott v. De Peyster, 1 Edw. Ch. 513; Blatchford v. Ross, 5 Abb. Pr. (N. S.) 438; Buffalo, etc., R. Co. v. Lampson, 47 Barb. 533; Fremont v. Stone, 42 id. 169; Cumberland Coal Co. v. Sherman, 30 id. 553; Conro v. Port Henry Iron Co., 12 Barb. 64.

Nor can a stockholder, who is also a creditor of the corporation, in case of the insolvency of the company, or in the event that it is being wound up under the management of a receiver, be entitled to set off the amount due him, against lawful calls, nor to set off against such calls, anticipated or probable dividends. Green's Brice's Ultra Vires, 553; *Ex parte* Henry Winsor, 3 Story, 411; Cutler v. Middlesex Factory Co., 14 Pick. 483; McLaren v. Pennington, 1 Paige, 102; Osgood v. Ogden, 4 Keyes, 70.

[2] San Diego v. San Diego, etc., R. Co., 44 Cal. 106; Abbot v. American H. R. Co., 33 Barb. 578; St. James' Church v. Church of the Redeemer, 45 id. 356; Polar Star Lodge v. Polar Star Lodge, 16 La. Ann. 76; Paine v. Lake Erie, etc., R. Co., 31 Ind. 283.

[3] Poor v. European, etc., R. Co. 59 Me. 270.

or indirectly, adverse to the corporation, and that, if they, taking advantage of their knowledge and position, make an advantageous bargain in the purchase of a claim against the corporation, the profits thus made will be treated as held in trust for the company.[1]

[1] European, etc., R. Co. v. Poor, 59 Me. 277.

The general principle is that no man can faithfully serve two masters whose interests are or may be in conflict. The law, therefore, will not permit one who acts in a fiduciary capacity to deal with himself in his individual capacity. It may be regarded as a prevailing principle of the law, that an agent must not put himself, during his agency, in a position which is adverse to that of his principal. For even if the honesty of the agent is unquestioned, and if his impartiality between his own interest and his principal's might be relied upon, yet the principal has in fact bargained for the exercise of all the skill, ability and industry of the agent, and he is entitled to demand the exertion of all this in his own favor.

The principle has found expression in a large number of cases involving a great variety of circumstances, and it applies equally, whether one deals with himself, acting as sole trustee, or with a board of trustees, of which he is a member, or with the directors of a corporation, of whom he is one.

Thus, in Dobson v. Racey, 3 Sandf. Ch. 62, Dobson, being the owner of certain real estate, mortgaged it to Racey, and then executed a power of attorney to him, authorizing him to sell and convey the premises in such manner as he might deem proper, and out of the proceeds of the sale, after paying the mortgage debt, to pay over the surplus to the wife of Dobson. Dobson went abroad and died. Shortly after Dobson left, Racey, by virtue of the power of attorney, conveyed the premises to one Harrison, who, without paying or agreeing to pay any thing therefor, two days thereafter reconveyed to Racey. Racey satisfied the mortgage, and paid $100 to the widow of Dobson. The action was commenced by the heirs of Dobson, claiming that the sale to Harrison was inoperative and void. The court, after declaring that it is now a settled rule, both in England and in this country, that no party can be permitted to purchase an interest when he has a duty to perform which is inconsistent with his character of purchaser, says: "The law declares the sale unwarrantable, on grounds of public policy, irrespective of any proof of injury or intentional wrong." See, also, Boyd v. Blankman, 29 Cal. 19.

In Pickett v. School District No. 1, etc., 25 Wis. 552, the plaintiff, who was the trustee of a school district, entered into a contract with the other two trustees, to build for the district a school-house. The stipulated price not being paid, he brought his action on the contract. The court said: "We think there is one fatal objection to the plaintiff's right to maintain this action, which renders it unnecessary to consider any of the other questions discussed. That is, that, inasmuch as it appears that the plaintiff was himself the director of the district at the time the contract was let, and took part as such in the proceedings to let it, it was against public policy to allow him, while holding that fiduciary relation to the district, to place himself in an antagonistic position, and obtain the contract for himself from the board of which he was a member."

In Cumberland Coal Company v. Sherman, 30 Barb. 553, the president and secretary, in pursuance of a vote of the directors of the corporation, sold and conveyed to the defendant, who was one of the directors, a large tract of land. The action was commenced to have the deed declared void and canceled. After a very elaborate and searching review of the authorities, the court came to the conclusion that the deed could not be sustained. Among other things, it said: "There can be no question, I think, at the present time, that a director of a corporation is the agent or trustee of the stockholders, and as such has duties to discharge of a fiduciary nature to-

In a recent case in Pennsylvania, where a bill was filed by a minority of stockholders to set aside a sale of property of an insolvent corporation, made to certain creditors, some of whom were also directors, it was observed by STRONG, J., as follows: "I come then to consider the facts that the purchasers were the same persons as those who as directors sold, and as stockholders authorized the sale. It is often said, and truly, that the same persons cannot be both buyers and sellers in the same transaction. They were not strictly in this. All the purchasers were not directors who made the sale. But I make no account of that. Still, why may not directors of a corporation sell to themselves? Each director has an interest distinct and antagonistic to his interest as a mere man. There is an identity of person but not of interest. There must be many things which directors can do for their individual benefit, which are binding upon a corporation of which they are directors. If they have advanced money, I cannot doubt they may pay themselves with the corporate funds. If they have

ward his principal, and is subject to the obligations and disabilities incidental to that relation.

"Neither are the duties or obligations of a director or trustee altered from the circumstance that he is one of a number of directors or trustees, and that this circumstance diminishes his responsibility, or relieves him from any incapacity to deal with the property of his *cestui que trust*. The same principles apply to him as one of a number as if he was acting as a sole trustee. It is not doubted that it has been shown that the relation of the director to the stockholders is the same as that of the agent to his principal, the trustee to his *cestui que trust*, and out of the identity of these relations necessarily spring the same duties, the same danger, and the same policy of the law."

In Aberdeen Railway Company v. Blaikie, 1 McQueen, 461, the house of lords held that a contract entered into by a manufacturer for the supply of iron furnishings to a railway company, of which he was a director, or the chairman, at the date of the contract, could not be enforced against the company. Lord CRANWORTH, delivering the opinion of the court, says: "A corporate body can only act by agents, and it is, of course, the duty of those agents so to act as best to promote the interests of the corporation whose affairs they are conducting. Such an agent has duties to discharge of a fiduciary character toward his principal, and it is a rule of universal application, that no one having such duties to discharge shall be allowed to enter into engagements in which he has or can have a personal interest conflicting, or which may possibly conflict, with the interests of those whom he is bound to protect. So strictly is this principle adhered to, that no question is allowed to be raised as to the fairness or unfairness of a contract so entered into. It obviously is, or may be, impossible to demonstrate how far, in any particular case, the terms of such a contract have been the best for the *cestui que trust* which it was possible to attain. It may sometimes happen that the terms on which a trustee has dealt or attempted to deal with the estate or interests of those for whom he is a trustee have been as good as could have been obtained from any other person; they may even at the time have been better. But still, so inflexible is the rule that no inquiry on that subject is permitted.

become liable as sureties for the corporation, they may provide for their indemnity. And though ordinarily the law frowns upon contracts made by them in their representative character with themselves as private persons, such contracts are not necessarily void. They are carefully watched, and their fairness must be shown. But I repeat the question, why may not directors sell to themselves in any case? It is because of the danger that the interests of stockholders may suffer, if such sales be permitted, for want of antagonism between the parties to the contract. But such sales are supported in equity where the fiduciary relation of the purchasers has ceased before the purchase, where the purchase was made with the full consent of the stockholders, or where stockholders have, by their acquiescence, debarred themselves from questioning the transactions. I do not, however, deem it necessary to decide that the rule in this case was absolutely indefeasible. The utmost the complainants claim is that it was voidable. Certainly nothing more can be claimed. Let it be, then, that it might have been set aside at the instance of the corporation, or even of a stockholder, as against the policy of the law and constructively fraudulent. Still, it was valid in equity as well as in law, unless one or the other chose to avoid it; and in all cases in which an attempt is made to fasten a constructive trust upon a purchaser, the attempt must fail unless made in a reasonable time."[1] The leading doctrine thus clearly set forth has been also held by recent cases in other states, where contracts are made with directors or officers of a railroad company for the purpose of

[1] Ashurst's Appeal, 60 Penn. St. 291. See, also, Chester v. Dickerson, 54 N. Y. 1; Getty v. Devlin, id. 403; Barton v. Plankroad Co., 17 Barb. 397.

Where a contract in which two of the directors were interested was made with the company, it was held "that nothing short of a ratification by the board after a full explanation and knowledge of their interest and all the circumstances, could render such a contract binding upon the company." Per Christiancy, J., in Flint, etc., R. Co. v. Dewey, 14 Mich. 477.

This doctrine was carried to great extremes in the case of Fuller v. Dame, 18 Pick. 472, in which case there was a contract, not with a director or officer of the corporation, but with a member merely, for a payment of a pecuniary consideration to such corporation on the location of a depot in a specified place; that such a contract was against public policy was held on the ground that the interests of the corporation and the public were identical; that each member was required to use his best and unbiased judgment upon the question of the fitness of the location without the influence which such arrangement might have; and that the question involved was one of good faith, to be left to the jury. Stark Bank v. United States Pottery Co., 34 Vt. 144.

securing their influence or interest in attaining the location of depots or machine shops, or the construction of the road so as to promote private interests; and especially would this be the case where the interest of the director under the contract thus made would depend upon the location as desired. The corporation, as well as the stockholders and creditors, would be not only entitled to the unbiased judgment of the director, which could not be expected under the above state of facts, but also to the benefit of his influence and argument in deciding such questions as a member of the board, which, of course, would be unreasonable to expect under the facts supposed.[1] And such a course would tend to sacrifice both the public rights and the interests of stockholders.[2]

[1] Pacific R. Co. v. Seely, 45 Mo. 212; Linder v. Carpenter, 62 Ill. 399; Ogden v. Murray, 39 N. Y. 202; *Re* Union Pacific R. Co., 1 Cent. L. J. 582.

[2] In the case of European, etc., R. Co. v. Poor, 59 Me. 277, APPLETON, C. J., said: "A trustee is one in whom property is vested in trust for others. Every person is to be deemed a trustee to whom business and interests of others are confided, and to whom the management of their affairs is intrusted. The general rule is that a trustee, so far as the trust extends, can never become a purchaser of the property embraced within the trust, save with the consent of all parties interested. The underlying principle is that no man can serve two masters. He who is acting for others cannot be permitted to act adversely to his principals. The agent to sell cannot become a purchaser of that which he is the agent to sell, for his position as selling agent is adverse to and inconsistent with that of a purchaser. So, the agent to purchase cannot, at the same time, occupy the position of a seller. It is not that in particular instances the sale or the purchase may not be reasonable. But to avoid temptation the agent to sell is disqualified from purchasing, and the agent to purchase from selling. In all such contracts the sales or the purchases may be set aside by him for whom such agent is acting. The *cestui que trust* may confirm all such sales or purchases if he deems it for his interest. The affirmance or disaffirmance rests with him, and the trustee, when buying trust property from or selling it to himself, must assume the risk of having his contracts set aside, if the *cestui que trust* is dissatisfied with his action."

The directors are not sureties for the fidelity of the officers of the corporation which they may be authorized to appoint. If they exercise reasonable diligence in the appointments of agents and officers, this is all that is required. But if they should knowingly appoint a person of bad character to a place of trust, they would be personally responsible. See Scott v. Depeyster, 1 Edw. Ch. 513. See, also, Burbridge v. Morris, 34 L. J. (N. S.) 131.

The rule of equity is liberal, embracing within its purview all fiduciary relations, as those of principal and agent, attorney and client, solicitors, executors, guardians, etc.

The president and directors of a corporation must be held as occupying a fiduciary relation to the stockholders, for and on behalf of whom they act. "The relation between the directors of a corporation and its stockholders," observes JOHNSON, J., in Butts v. Wood, 38 Barb. 188, "is that of trustee and *cestui que trust*." "The directors," remarks ROMILLY, M. R., in the York & Midland Railway Co. v. Hudson, 19 Eng. L. & Eq. 365, "are persons selected to manage the business of the company for the benefit of the shareholders. It is an office of trust, which, if they undertake it, is their

SEC. 158. **Instances where they are not liable, etc.** — But the mere fact of being a director will not render a party personally liable for the frauds and misrepresentations of the active managers.

duty to perform fully and entirely." Persons who become directors and managers of a corporation place themselves in the situation of trustees; and the relation of trustees and *cestui que trust* is thereby created between them and the stockholders. Scott v. Depeyster, 1 Edw. Ch. 513; Verplanck v. Mercantile Ins. Co., id. 85. All acts done by the directors officially should be for the interests of the *cestui que trust*. Holding a fiduciary relation, they cannot be permitted to acquire interests adverse to such relation.

In European, etc., R. Co. v. Poor, *supra*, the court say: "The bill alleges that 'at a meeting of the directors of said company (the E. & N. A. Railway Co.), holden on the 25th day of August, 1865, a contract previously made between said company and a certain firm, under the name of Pierce & Blaisdell, and signed by said defendant, as president of said company, and by Pierce & Blaisdell, for the construction of said railroad, was approved, adopted and confirmed. That said Pierce & Blaisdell did proceed, under said contract, in the construction of said railroad, and received large sums of money under the same contract,' and 'that there was an agreement between said defendant while he was president and director, as aforesaid, and said firm of Pierce & Blaisdell, or one of the members of said firm, that said defendant should receive a large sum of money for or on account of said contract, or a part of the profits which might be received by said Pierce & Blaisdell, under and by their performance of said contract for the construction of said railroad.'

"To this portion of the bill the defendant has demurred, thereby admitting, for the purposes of the present argument, his interest in the contract of Pierce & Blaisdell, with the corporation of which he was president and a director, made when he was acting as such, and in the profits of which he was a participant while holding those positions. As the agent to sell cannot purchase what he is to sell, nor the agent to purchase buy of himself, so the agent to contract cannot, as agent, contract with himself as principal. The interest of the parties to a contract, whether of purchase, a sale, or for work or labor, are adverse and inconsistent with each other. It is the duty of the directors of a corporation to act for the best interests of such corporation. If a director be a party to a contract entered into with himself, his duty as an officer is in conflict with his interests as an individual. This is equally so, whether he enters into the contract on its inception, or subsequently acquires an interest in it. If he enters originally into the contract as director with himself as a party, it is not difficult to perceive who would have an advantage in the bargain. If he subsequently becomes a partner, he places himself in a position in which, when any questions arise as to its performance, his interest as a party to the contract conflicts with his duty as an officer. The general rule is, that directors cannot legitimately acquire an interest adverse to the corporation, and that if they purchase any claim against the company it is in trust for the company."

In the Great Luxembourg Railway Co. v. Magnay, 25 Beav. 586, the master of the rolls says: "I have, upon various occasions, stated what I considered to be the duties and functions of a director of a joint-stock company. He is, in point of fact, not merely a director, but he also fills the character of a trustee for the shareholders, and he is, in regard to all matters entered into in their behalf, to be treated as an agent; therefore there attaches to a director, for the benefit of the shareholders, all the liabilities and duties which attach to a trustee or agent. Accordingly, if a director enters into a contract for the company, he cannot personally derive any benefit from it. I accordingly held, in the case of the Midland Railway Co. v. Hudson, that the defendant, as director and trustee, was bound to give to the company the benefit of a large contract entered into by him for iron,

Without knowledge of, and participation in the fraudulent act, as by lending his name and influence to promote the fraud, or some willful or negligent violation of duty, he cannot be held

which had been used on the railroad, and to render to them the pecuniary advantage which he had derived from it. If, as in the case of the North Midland Railway Co. v. Hudson, a director of a railway company enter into a contract for the purchase of a large quantity of iron in the shape of rails, but before it is wanted and before it has been actually delivered (for it took some time in that case to perform the contract with the iron master) the price of iron should happen to rise, the trustee is not at liberty to put into his pocket the difference between the market price of the iron when delivered and that at which it was purchased. He cannot sell it again to the company as if it were his own property. The whole benefit must go to the shareholders and not to the director."

In Benson v. Heathorn, 1 Y. & Coll. 326, the defendant, being director of a joint-stock company, established for the building, purchasing, hiring, and employment of steam vessels, purchased a vessel for £1340, and afterward sold it to the company as from a stranger, for £1500, charging the company with commission at £1 per cent, the broker's earnest money and the expenses of a bill of sale to himself, there being but one bill of sale. It was held that such a transaction could not stand in equity.

In Flint & P. M. R. Co. v. Dewey, 14 Mich. 477, it appeared that the defendant, the secretary, and another director had been appointed a committee by the company for building and equipping the road. The committee entered into a preliminary contract with a certain party and on the same day that party assigned to the defendant's secretary three-eighths of said agreement and four-tenths of a contract to be thereafter entered into, also, providing that they should be at three-eighths the expense of negotiating the bonds of the company which were to be received by the contractor.

In a suit by the complainant to compel the delivery of said bonds, it was held that the transaction under which the defendant claimed was clearly fraudulent and void as against the complainant, that it was his duty (with the other members of the committee) on letting the contract, to use his best efforts and judgments to secure the best terms he could for the company; but in joining with the contractor in taking this very contract which they were employed to let, it became his interest to let the contract at the highest price. "It is possible," observes CHRISTIANCY, J., "that there may have been no actual fraud, and that the contract would not have been let on better terms; but the principle of law applicable to such a contract renders it immaterial, under the circumstances of the case, whether there has been any fraud in fact, or any injury to the company. Fidelity in the agent is what is aimed at, and as a means of securing it the law will not permit the agent to place himself in a situation in which he may be tempted by his own private interest to disregard that of his principal; and if such contracts were to stand until shown to be fraudulent and corrupt, the result, as a general rule, would be that they must be enforced in spite of fraud and corruption."

"The general rule of law," observes WAYNE, J., in Michoud v. Girod, 4 How. (U. S.) 555, "stands upon our great moral obligation to refrain from placing ourselves in relations which ordinarily excite a conflict between self-interest and integrity. It restrains all agents, public and private."

To give effect to these views in England it is provided by the Companies' Clause Consolidation Act, 8 and 9 Vict., chap. 16, that no person interested in a contract with the company shall be a director; and if any director, subsequent to his election, shall become concerned in any contract, the office of director shall become vacant and he shall cease to act as such.

personally responsible.[1] But the relation they occupy to the company and its creditors will not prevent directors or other officers and agents from protecting themselves as creditors of the company by the same means that are open to others. Thus, where the president and two directors of a company constituted a quorum, and they, being the only stockholders at the time, sold corporate property to the president in consideration of past indebtedness, and an agreement by him to pay other specified debts of the corporation, and a judgment debtor levied upon the property thus sold, it was held that he might be enjoined from proceeding under his levy. Dillon, J., in an Iowa case, observes: "Being an officer of the corporation did not deprive Buel [the plaintiff] of the right to enter into competition with other creditors, and run the race of vigilance with them, availing himself, in the contest, of his superior knowledge, and of the advantage of his position, to obtain security for or payment of his debt. The act of Buel was not legally or constructively fraudulent, in consequence of his being an officer or member of the company."[2]

Sec. 159. **Where they act without authority.** — The general rule of personal liability of agents, where they act without the authority which they assume to have, has also been applied to persons assuming authority in making contracts for a corporation which had no legal existence.[3] The general principle is thus stated by Mr. Story: "Wherever a party undertakes to do an act as the agent of another, if he does not possess any authority from the principal therefor, or if he exceeds the authority delegated to him, he will be personally responsible therefor to the person with whom he is dealing for or on account of his principal."[4] And whether

[1] But it is held in Blanchard v. Kaull, 44 Cal. 440, that the signing of a note by parties as trustees did not render them personally liable even where there was no corporation. As to fraudulent overissue of stock, see Bruff v. Mali, 36 N. Y. 200; Cazeaux v. Mali, 25 Barb. 578; Shotwell v. Mali, 38 id. 445.

[2] Buell v. Buckingham, 16 Iowa, 284. See, also, Merrick v. Peru Coal Co., 61 Ill. 472; Sargent v. Webster, 13 Metc. 497; Whitwell v. Warner, 20 Vt. 425; Hayward v. Pilgrim Soc., 21 Pick. 270; Smith v. Lansing, 22 N. Y. 526; Stratton v. Allen, 16 N. J. Eq. 229; City of St. Louis v. Alexander, 23 Mo. 483; Murray v. Vanderbilt, 39 Barb. 140, Van Hook v. Somerville Manuf. Co., 5 N. J. Eq. 137, 633.

[3] Herod v. Rodman, 16 Ind. 241. See, also, Gratz v. Redd, 4 B. Monr. 178.

[4] Story on Agency, § 264; Paley on Agency, by Lloyd, 386; 2 Kent's Com. 629.

the assumed agency is *bona fide* or *mala fide*, the personal liability would exist for damages sustained thereby, on the plain principle not only of equity but of justice, that where one of two innocent parties must suffer a loss, it ought to be borne by the one who induced the other, by false assumptions and representations, to enter into relations by which the loss is sustained.[1] The effect of acting without authority in making contracts, etc., has already been considered.

SEC. 160. **Liability of partners.**— It may also occur that parties, assuming to act as directors of a corporation when they are not, or where there is no corporation, may render themselves liable as partners to those with whom they contract. But in such a case it must appear, in order to hold any one of them as such, that he was so acting at the time the contract was made.[2]

SEC. 161. **Directors de facto.**— It is a general principle of the law, that persons acting as directors of a corporation, and generally recognized as such, are at least directors *de facto;* and their acts are valid until they are ousted in some direct proceedings therefor.[3] And a board of directors *de facto*, in possession of the franchises of a corporation, may maintain an action against persons claiming to constitute a board of directors, for any trespass relating to the corporate property; and the acts of such *de facto* officers cannot be collaterally impeached.[4]

[1] See *ante*, chap 9, § 199 *et seq.* See, also, chap. 14.

The most effectual remedy in such cases is by injunction to restrain the wrongful act. Thus, where they have authority to issue convertible bonds for the legitimate purpose of completing and operating a railroad, they will be restrained from issuing them as a part of a fraudulent device to increase the stock; or when so issued, a person affected with notice thereof, and that they do not represent a *bona fide* indebtedness, may likewise be restrained by injunction. See, also, where various other acts of directors will be restrained by injunction; Belmont v. Erie R. Co., 52 Barb. 637.

[2] Fuller v. Rowe, 57 N. Y. 23; S. C. 59 Barb. 344; Wells v. Gates, 18 id. 554. But see Blanchard v. Kaull, 44 Cal. 440.

[3] Vernon v. Hills, 6 Cow. 26; All Saints' Church v. Lovett, 1 Hall, 191.

[4] Atlantic, etc., R. Co. v. Johnston, 70 N. C. 348. The regularity of an organization that has for years acted as a corporation cannot be questioned collaterally but only by *quo warranto* or *scire facias*. Thompson v. Candor, 60 Ill. 244. See, also, Shewalter v. Pirner, 55 Mo. 218; Walker v. Fleming, 70 N. C. 483; Mahony v. East Holyford, L. R., 7 H. L. 869; In re County Life Assurance Co., L. R., 5 Ch. App. 288.

SEC. 162. **Compensation of.**— Directors are entitled to such compensation as may be provided by the constitution or by-laws of the association. But it has been held that extra *and gratuitous* service rendered by such officer does not raise any implied promise that they are rendered at the request of the party benefited by them, or entitles him an action to maintain therefor.[1] It seems to be the rule, that in the absence of any provision of the charter or by-laws for the compensation of directors as such, the law raises no implied promise to pay them therefor.[2] They stand in the same position in this respect as trustees at common law, and must, unless the charter or by-laws provide for their proper compensation, see to it, that by contracts, their compensation is provided for, or they can recover none.[3] But, *for the performance of duties not pertaining to the office of director*, he is entitled to recover compensation the same as any other agent.[4] Thus, where

[1] Loan Association v. Stonemetz, 29 Penn. St. 534. See, also, Barstow v. City R. Co., 42 Cal. 465. They are not entitled to compensation, unless some provision is made therefor in the constitution or by-laws, or for extra services, unless unquestionably beyond the range of his official duties. New York, etc., R. Co. v. Ketchum, 27 Conn. 170. See, also, where there was a delay in claiming for extra services, Utica Ins. Co. v. Bloodgood, 4 Wend 652.

[2] Gridley v. Lafayette, etc., R. R. Co., 71 Ill. 200; American, etc., R. R. Co. v. Miles, 52 id. 174; Holder v. Lafayette R. R. Co., 71 id. 105; Maux Ferry Gravel Co. v. Branigan, 40 Ind. 361.

[3] American, etc., R. R. Co. v. Miles, 52 Ill. 174.

[4] Gridle v. Lafayette, etc , R. R. Co., 71 Ill. 206. In this case it appeared, that about the month of September, 1867, appellant was elected president of the board of directors of the defendant company, and served in that capacity until the last of January, 1872. Neither prior to his election, nor at any time afterward, did the board of directors prescribe, by resolution or by-law, what sum, if any, the president should receive for services he should render; but it seems to have been understood, at the time of his election, that he should receive a fair compensation. An executive committee was appointed, with power to manage and direct the business affairs of the company as they should deem best, in all cases where no specific directions should be given by the board of directors, and to take a general supervision of the finances of the company; and it was imposed as a duty of the committee to examine, and, if proper, to audit all bills and accounts, or vouchers paid or to be paid by the treasurer, and, so far as practicable, such examination was required to be made before payment. Appellant was appointed a member of that committee. He was, at the organization of the company, elected a director, and was annually re-elected to that position, as well as president, and continued a member of the executive committee. During the time appellant was president and a member of the executive committee, he made several trips to Ohio, and went to New York, for the purpose of contracting for the construction of the road, and aided in leasing it at Toledo, under which lease it was constructed. He also made several trips in other places and aided in procuring local subscriptions, by carrying elections for the purpose. He made out his account at $5,000, which was audited by the executive committee, of which he was a member, but in which he seems to have taken no part, and an order was passed on the treasurer for that sum,

a director of a railroad company was appointed, by resolution, an agent to obtain subscriptions of stock, to procure a right of way, and duties outside of his office as director, it was held that he might recover a reasonable compensation therefor, but for services rendered by him as a member of an executive committee, or in efforts

and a warrant of attorney was given, and a judgment was afterward confessed, but, on a motion made by the company, it was set aside, and the corporation was let in to plead. It also appears, that at the time the road was leased, the sum of $25,000 was reserved and set apart for the payment of the salaries of the president, treasurer, secretary, and other officers of the company.

A trial was had by the court, by consent, without the intervention of a jury. The issues were found for plaintiff and his damages assessed at $3,000, and a judgment rendered for that sum. Both parties appeal the case to this court and assign errors on the record, and the two cases were consolidated and considered as one, with assignment of cross errors.

WALKER, J., said: "In the case of Holder v. The Lafayette, Bloomington & Mississippi Railway Co., 71 Ill. 106, it was held, upon a careful examination of the authorities, that the directors of such a company, having the control of its finances and property, were not entitled to compensation for services pertaining to the office, unless the salary was fixed by the by-laws or a resolution of the board before the services were performed; that in such cases the directors were managers or governors of the affairs of the company and occupied the position of trustees of the fund, and as such were not, under the common law, entitled to make any profit or derive any advantage from the position. And the president, being a director and one of the managers of the company, and when acting as president only aiding the board, of which he is the head, in executing the trust, must, for the same reason, fall within and be governed by the same rule.

"In the case of Kilpatrick v. The Penrose Ferry Co., 49 Penn. St. 121, which is must like this, it was held, that the president and treasurer could not recover on the *quantum meruit*. In the opinion, the court said: 'Compensation of corporate officers is usually fixed by a by-law or resolution, either of the directors or stockholders; but where no salary is fixed none can be recovered. These offices are usually filled by the chief promoters of the corporation, whose interest in the stock or other incidental advantages is supposed to be a motive for executing the duties of the office without compensation, and this presumption prevails until overcome by express pre-arrangement of salary.' And The Commonwealth v. Crane, 6 Metc. (Mass.) 64, was referred to, and it was held the rule was just as applicable to the president and treasurer, or other officers, as to directors. And it was further said: "That they may not consume what they were appointed to preserve; their compensation must be expressly appointed before it can be recovered at law." This, and the authorities referred to in Holder v. The Lafayette, Bloomington & Mississippi Railway Co., *supra*, establish beyond doubt that the president, for the performance of his duties as such, has no claim for compensation, as it was not fixed before he discharged the duties. Nor does the fact that the finance committee audited the account and drew an order for its payment, as was held in Duston v. The Imp'l Gas Co., 3 B. & Ald. 125, bind the company, as it was illegal to allow the claim.

"It has been held, and the rule is reasonable, that where such an officer performs extraordinary duties not pertaining to his office, he may recover a reasonable compensation. Hall v. Vt. & Mass. R. R. Co., 28 Vt. 401. But the evidence shows no such service performed. Or, had the president or officers expended moneys of their own while discharging the duties pertaining to their office, there can be no question but that they could recover therefor."

to contract for the construction of the road, including time and travel, he cannot recover.[1] But it seems that a director who serves as *treasurer*, without a previous vote that he shall have compensation therefor, is not entitled to recover for such service, even though there was an understanding with the other directors that he should ultimately have compensation therefor, because the directors have no power to fix the compensation of an officer, and also, because the duties of treasurer, when so held by a director without any vote fixing compensation, will be treated as incident to his duties as director.[2] But in Minnesota[3] it is held, that when a director renders services as secretary under a resolution of appointment which does not specify his compensation, he is, nevertheless, entitled to recover a reasonable compensation therefor, and this certainly seems the most sensible and just rule.

It was held in Indiana, that where no provision is made in the organic law or the by-laws of the corporation, nor any special contract made relating to compensation for services, none could be recovered; and that, in the absence of any such provisions, where the board of directors made an allowance to themselves for services, and issued orders of the company therefor, these were invalid.[4] And where a board of directors, in addition to their fixed salary, voted a certain compensation for all special services performed by any director, it was held that a director could not recover beyond the regular salary, provided the services could have been performed by the party as such director.[5]

Sec. 163. **Cannot increase their own compensation.**—As one of the relations between the director and the corporation, as we have seen, is that of a trustee and *cestui que trust*, if a director claims an increase of compensation beyond that provided by law, he is disqualified from acting on the question, and if he is necessary to

[1] Cheney v. Lafayette, etc., R. R. Co., 68 Ill. 57.

[2] Holder v. Lafayette, etc., R. R. Co., *ante*.

[3] Rogers v. Hastings, etc., R. R. Co., 22 Minn. 25.

[4] Maux Ferry Gravel Road Co. v. Branegan, 40 Ind. 361. See, also, Hall v. Vermont, etc., R. Co., 28 Vt. 401; Pierson v. Thompson, 1 Edw. Ch. 212.

[5] Hodges v. Rutland, etc., R. Co., 29 Vt. 220. See, also, New York, etc., R. Co. v. Ketchum, 27 Conn. 170; Henry v. Rutland, etc., R. Co., 27 Vt. 435; Shakelford v. N. O. R. Co., 37 Miss. 202; Hall v. Vermont, etc., R. Co., 28 Vt. 401; Loan Association v. Stonemetz, 29 Penn. St. 534.

constitute a quorum, in the vote on such claim, the acts of the board so constituted, increasing the compensation, would be invalid, and would not bind the corporation.[1]

In the absence of provisions in the charter or by-laws of the body, or any regulation thereof, by custom, on the subject, directors in England, it appears, are not entitled to recover any compensation for services.

It has been held in Pennsylvania, that a director who was elected to serve without compensation cannot recover for such services, even though a resolution passed by the corporation, after they are rendered, provides that they shall be paid.[2] The reason for this rule is two-fold, *first*, because by accepting the office without any promise of compensation, and occupying to the stockholder *and the creditors* of the company the position of trustee, he cannot be permitted to impair the trust property as to either, without the consent of both, by taking compensation for his own benefit and *second*, because to permit him to use his position as director to influence the stockholders to vote him compensation for services gratuitously rendered, might result in disastrous consequences, not only to the corporation, but also to its creditors. By accepting the office *without any compensation being fixed or provided for*, no implied promise to pay can be raised, and any

[1] Butts v. Wood, 37 N. Y. 317. And where a director of a railroad corporation rendered special services in procuring subscriptions to the stock of the company in its organization, which services were rendered by him in expectation of a compensation, and the stockholders, in consideration thereof, voted him a free pass over the road for himself and family during his life; which, although an inadequate compensation, was accepted by him as such; but some years afterward the stockholders rescinded the vote, and an action was brought by the company to recover the fares; it was held that the services rendered created no indebtedness, and could not constitute a consideration for the contract; that it would have made no difference if the services had been rendered upon an express understanding with his associates that he was to be paid by the company after its organization, as aside from the technical difficulty of binding a corporation before its existence, the policy of the law wholly discountenances such arrangements. New York, etc., R. Co. v. Ketchum, 27 Conn. 170. See, also, Branch Bank Ala. v. Collins, 7 Ala. (N. S.) 95.

In relation to the compensation of municipal officers, Mr. Dillon observes: "There is no such implied obligation on the part of municipal corporations, and no such relation between them and officers, which they are required by law to elect, as will oblige them to make compensation to such officers, unless the right to it is expressly given by law." Dill. on Mun. Corp., § 169; Sikes v. Hatfield, 13 Gray, 347; Barton v. New Orleans, 16 La. Ann. 317; Garnier v. St. Louis, 37 Mo. 554; Smith v. Commonwealth, 41 Penn. St. 335; Devoy v. New York, 39 Barb. 169; Bladen v. Philadelphia, 60 Penn. St. 464; Philadelphia v. Given, id. 136.

[2] Loan Ass'n v. Stonemetz, 29 Penn. St. 534.

compensation subsequently voted is a naked gratuity not based upon any legal consideration. The Connecticut case[1] heretofore cited is illustrative of these propositions. In that case, the defendant, who was a director of the plaintiff, had rendered valuable services in procuring subscriptions to its stock, for which he had never been paid and for which no promise to pay had ever been made. In April, 1847, the board of directors passed resolutions as follows:

"Resolved, unanimously, that this board do highly appreciate the zeal, activity and perseverance evinced by Morris Ketchum, Esq., a member of this board, in his efforts to secure subscriptions to the capital stock of this company, and to commend the project to the favorable consideration of the public, and that to his exertions we are, in a great degree, indebted for the filling up of the stock and securing the immediate construction of the road at so early a period.

"Resolved, unanimously, that as a permanent evidence of our estimate of the services of Mr. Ketchum, and as a consideration in some degree therefor, this board doth hereby assign and grant to him the right to a free passage in the cars of this company over its road, for himself and family, during his natural life.

"Resolved, that the secretary be directed to transmit to Morris Ketchum, Esq., a copy of the foregoing resolutions."

A copy of these resolutions was soon afterward presented to Mr. Ketchum. The free passage was not granted to him nor received by him as a gratuity, but as a compensation, to some extent, for his services. Before the passage of the resolutions, conversation was had in relation to the subject between Mr. Ketchum and the president and some of the directors, and it was expressly understood that the consideration expressed in the resolutions was the actual consideration upon which the grant was made, and that the services of Mr. Ketchum were a full and adequate consideration for the right and privilege granted. After the passage of the resolutions, and in consequence thereof, Mr. Ketchum made no other or further claim against the company for his above-mentioned services. From the time when the road went in operation in January, 1849, Mr. Ketchum and his wife,

[1] New York & New Haven R. R. Co. v. Ketchum, 27 Conn. 170.

children and servants, were accustomed to travel upon it between Westport and New York, whenever they chose so to do, without paying fare, claiming a right so to do by virtue of the resolutions above set forth. This was done with the knowledge and consent of the company until the time hereinafter mentioned, and without any demand for fare by the company, and without any claim by the company that any of those persons were liable to pay any passage-money. The facts above stated were known to the stockholders, and were discussed at one of their meetings in which the president explained to them that the privilege so granted to Mr. Ketchum and his family had been given by way of compensation for his valuable services, yet no action was then taken in reference to revoking the privilege. No further action was taken upon the subject until the 10th day of May, 1855, when a meeting of the stockholders passed the following vote: —

"Whereas, the board of directors of the New York and New Haven Railroad Company, at some time prior to this date, granted to Morris Ketchum and family, and to others, the right to pass and repass upon the road of said company, free of charge, for all time, or without limit — now, therefore, Resolved, that the president of this company be instructed to annul all such grants, and give notice to all persons claiming under such grants."

The fact of the passage of this resolution was not communicated to Mr. Ketchum, and he had no knowledge of it, and no action was taken by the president in relation to it. Mr. Ketchum continued to enjoy the benefit of the free passage as before, until after the 18th day of August, 1856, on which day the board of directors passed the following vote: —

"Resolved, that the resolution of this board, passed the 8th day of April, 1847, granting to Morris Ketchum, Esq., the right to a free passage in the cars of this company over its road for himself and his family during his natural life, be, and the same is hereby rescinded and annulled, and this company will hereafter exact from the said Ketchum and from the members of his family the usual and ordinary fares for passage over said road."

This resolution was duly communicated to Mr. Ketchum, with notice that it would be enforced against him from and after August 25, 1856. From and after that day until the date of

the commencement of this suit, February 5, 1857, fare was demanded by the company from Mr. Ketchum for the passages of himself and family and servants whenever they traveled upon the road, but payment thereof was refused under the claim of a right to pass without payment.

It was claimed by the plaintiff[1] that the grant of the free pass for himself and friends was not a gratuity, but was in considera-

[1] Ellsworth, J., said: "The plaintiffs say in the first place in support of their view, that the defendant has at no time rendered service to them, but that whatever was done by him was done in behalf of three or four individuals, who, together with himself, undertook to accomplish certain ends of their own, before the plaintiffs were a corporation, and for which the company was not liable, and in fairness to those who afterward became stockholders ought never to be held liable, either with or without a vote of the directors. They say secondly, that if it be otherwise, and the services were rendered to the plaintiffs, they were not performed under any agreement or understanding with the plaintiffs that the defendant was to be paid for them; and that he was a mere director chosen because of his position, experience and financial ability, and especially his great pecuniary interest in carrying the road through, and in all that he did was merely acting as such director. They insist that he did nothing beyond what his official relation to the company required him to do, and no more than was expected of a director. They say thirdly, that directors have no right by grants, free tickets, commissions or otherwise to remunerate themselves for official services. These objections, involving, as they do, important questions of a somewhat general nature, cover substantially the whole ground of controversy, and, if sustained by the facts in the case, make a decisive answer to the defendant's claim. Let us then look at the facts.

"It appears that from the 13th day of August, 1844, when certain persons attempted to form a company under the charter granted by the legislature, to December, 1846, when the stock was really taken up by *bona fide* stockholders, and the company perfected, the corporation was in an anomalous and inchoate state. Nothing had been done that was binding upon the so-called stockholders, beyond the payment of one dollar per share. The proceedings, thus far, seem to us to be open to very serious objection in their relation to the existence of the corporation, if the legislature had seen fit to interfere in that stage of the affair; but it did not do so, and since we have no occasion to inquire into the validity of these incipient proceedings, we shall look at them only in their relation to the other objections already stated.

"The service for which it is claimed that the plaintiffs were liable to pay the defendant were rendered between the first of October and the last of December, 1846, at a time before the stock was taken up in conformity to the charter, and before the company had a proper existence. Hence it is not easy to see how they could be rendered for or at the request of the company (or rather perhaps the first *bona fide* stockholders, for they must be looked at as the company), and if they were not so rendered, then how the company could be liable for them, upon any known principle of law. We are aware that it is no uncommon practice for corporations to assume and pay these preliminary and antecedent charges, after the company has become organized, but we do not see how the company, if it should object, could be compelled to pay them, and in some cases it would be most inequitable to require it. Can a few persons combine for their own interest to get up a railroad — agree with one of their number to give him a large commission or bonus for every stockholder he can allure into the company, and privately make this commission or bonus a charge on the corporation when formed? This would

tion of the services rendered by him for the company to an amount much greater than the nature of the thing granted, but the court held that the grant of the pass was a mere gratuity, be-

be a breach of faith toward honest and unsuspecting stockholders who pay the charter-price for their stock, and expect to take it clear of all incumbrance. The effect would be the same as if commissioners should enter into a private bargain with subscribers, to let them subscribe on terms which the charter does not allow. The getters-up of projects to be carried by such means may well be supposed, as is generally the fact, to be influenced by a view to their own special benefit, for certainly they do not act in behalf of the corporation itself. We do not say that the present is such a case, but such is the natural consequence of the doctrine claimed by the defendant's counsel, and we cannot give it our approval or countenance. It is soon enough for corporate bodies to enter into contracts incumbering their property, when they are duly organized according to their charters and have their chosen and impartial directors to conduct their business. If a vote was necessary in this case to make these charges a debt against the company, the grant for that very reason cannot stand, for the directors had no power to assume or to create such a debt for such a service.

"But the next objection is still more decisive. As we have said, the services of the defendant were rendered between the first of April and last of December, while he was a director, and exerting himself, together with others, to get the company into being. In what exactly his services consisted beyond his advice and personal efforts to induce gentlemen to take stock in the company does not appear. We see nothing of time spent, money expended or travel or other labor, except what may be implied from the fact that Mr. Ketchum "was a banker, and particularly accustomed to financial and railroad operations, and had an extensive and personal acquaintance and much influence with business and moneyed men," and his having received from one of his associates, then acting as president of the association, a blank subscription list, accompanied with a request that he would get subscribers, which he promised to do, and accordingly made application to persons and firms, and got subscribers to the amount of nine thousand four hundred and eighty shares, which, as the report says, were obtained "with difficulty and only on personal application." Nothing, however, was said in the interview with his associates, so far as appears, as to this service being considered or treated as extra labor, or as entitling him to a commission or reward; not a word appears to have been said about compensation, nor does it appear that it was so much as alluded to; still it is found that Mr. Ketchum, himself, did not suppose the services were to be gratuitous. We suppose it may be so, but even he himself does not state in what manner he expected to be compensated. Doubtless a director may perform extra labor, and for it be justly entitled to a compensation for his time and expenses, and this may be made out even without an express promise, for a promise may be implied from the peculiar and extraordinary services rendered, but then the services must appear to be of an extraordinary character, and this beyond all question or doubt, for, as director, he agrees to give his services, and is entitled to make no charges, whatever, however severe and protracted may be his labors. A different rule would lead to great abuses and corruption. We cannot but think it important in every case that where a person, holding the position of a director, expects, or may be fairly entitled to expect a compensation for his services, the services should appear to have been agreed for, or their nature and extent should appear to be such as clearly to imply that both parties understood they were to be paid for, and not rendered gratuitously within the scope of a director's duty.

"Mr. Ketchum, so long as he remained a director, was bound, in good faith, to make a proper use of his influence to induce persons to take stock in the company, if thereby he could

cause the defendant had rendered no services for which he was entitled to be paid. Ellsworth, J., in passing upon this question, gave expression to the true rule in such cases, as stated in his opinion given in the preceding note.

fairly promote the interests of the company. He was chosen a director because of his ability, at the outset of this enterprise. Why did his associates select a man of his character and experience, but that he might bring these capabilities into the discharge of his duties to the company. If Mr. Ketchum thought his aid and co-operation were too cheaply purchased by the incidental advantages which he expected to receive by carrying this road through, he should have said so, and then he might or might not have been chosen a director. Undoubtedly the other directors did what they could, and whether it was more, or less, than Mr. Ketchum did, does not appear. They did what they could, and we see no evidence that any of them agreed for, or was to receive compensation from the company, when organized. All expected to be benefited in some way, and we cannot doubt that their expectations were realized. One became president, another was contractor and built the road, another the financier, and another perhaps had real estate on the proposed line of the road, the value of which would be enhanced. They all had their several objects and ends, and probably secured them, and so far as this was properly done, the company cannot complain, but then such services, unaccompanied with a special contract, fall quite short of creating an indebtedness against the corporation

"The third objection, viz., that directors have no right to charge for performing official duty is a principle universally admitted to be sound law. We find it so laid down in the elementary books, and in several decided cases, and the reasons assigned most forcibly commend themselves to our approbation. In Collins v. Godfrey, 1 B. & Ald. 950, a director of a bank was prevented from receiving a reward offered by the bank for the recovery of stolen property, because he performed nothing but his duty in endeavoring to recover it. In Dunstan v. Imperial Gas-light Co., 3 B. & Ald. 125, a resolution formally adopted, allowing the directors certain compensation for attendance on courts, etc., was held insufficient to give a director a right to recover for such services. The same doctrine is held in the case of Loan Association v. Stonemetz, 29 Penn. St. 534. There a vote was passed by the directors to pay the chairman of a committee on short loans $200 for his services already rendered, but the court held that it created no debt, it being in favor of a director for services rendered by him in his official capacity. The court say: 'Although the director performed the work faithfully, his labors fell within the limit of his duty as a director, and the fact that he performed them with an exuberance of good faith imposed upon the corporation no moral duty to pay for them. The legal obligation was as defective as the moral. When the resolution was passed the consideration had been executed, for the services compensated by this verdict had been previously rendered, and there is no proof of a precedent or contemporaneous request. It is quite true that they were beneficial to the defendant, and a request might, in the liberal spirit of modern decisions, be implied, but in the instance of gratuitous services performed by a party in the line of his legal duty, there is no case which authorizes such an inference. Our decision must be placed on yet higher ground. We regard it as contrary to all sound policy to allow the director of a corporation, elected to serve without compensation, to recover payment for services performed by him in that capacity, or as incidental to his office. It would be a sad spectacle to see the managers of any corporation * * assembling together, and parceling out, among themselves, the obligations, or other property of the corporation in payment of past services.'"

SEC. 164. **Directors' meetings.**— A formal meeting of the directors is not necessary to enable them to transact any business or do any act which is within their corporate powers.[1] It is sufficient if the prescribed quorum is present, whether there has been any call for the meeting or not, although it is essential that a majority of the board be present and that they act together as a board.[2] The directors are not the corporation, but simply the officers and agents thereof, consequently the place of their meeting is not material, and may be held out of the state, as well as in it.[3] But, where the action of the directors as a board is required, notice of a time and place for the meeting should be given, and simply obtaining the assent of a majority of the directors to an act, separately and at separate interviews, as to a matter which calls for its action as a board, is insufficient.[4] But it seems that it is sufficient presumptive proof for a stranger, of the concurrence of the board of directors, to show that they assented separately.[5]

[1] Waite v. Windham County Mining Co., 36 Vt. 18.

[2] D'Arcy v. Tamar, etc., Railway Co., L. R., 2 Exch. 158; Cram v. Bangor House Proprietary, 12 Me. 354; Buell v. Buckingham, 16 Iowa, 284. A minority of a board cannot adjourn the meeting to a place fifty miles away. State v. Smith, 48 Vt. 266.

[3] Arms v. Conant, 36 Vt. 744; Ohio, etc., R. R.Co. v. McPherson, 35 Mo. 13; Bellows v. Todd, 39 Iowa, 209.

[4] D'Arcy v. Tamar, etc., Railway Co., *ante;* Barcus v. Hannibal, etc., Plank-road Co., 26 Mo. 102; Wells v. Rahway Rubber Co., 19 N. J. Eq. 402.

[5] Tenney v. East Warren Lumber Co., 43 N. H. 343.

CHAPTER VII.

OFFICERS AND AGENTS GENERALLY.

Sec. 165. Necessity for corporate agents.
Sec. 166. General limitations on the authority of agents.
Sec. 167. Directors as agents.
Sec. 168. Appointment of agents, use of seal, etc.
Sec. 169. What is within the scope of the agent's authority.
Sec. 170. Powers implied by virtue of an office.
Sec. 171. Powers of president.
Sec. 172. Authority by usage.
Sec. 173. Apparent authority.
Sec. 174. Distinction between executed and unexecuted contracts, where the agent exceeds his authority.
Sec. 175. Limitations of power as to time.
Sec. 176. Mode of executing contracts by agents.
Sec. 177. How contracts by, should be executed.
Sec. 178. Id.
Sec. 179. *Ultra vires* contracts by agents.
Sec. 180. Same continued.
Sec. 181. Parties dealing with an agent must take notice of his authority.
Sec. 182. Same continued.
Sec. 183. Delegation of authority by agents.
Sec. 184. Powers expressly conferred.
Sec. 185. Ratification of acts of agents.
Sec. 186. The doctrine of ratification applicable to corporations.
Sec. 187. Same continued.
Sec. 188. Personal liability of agents.
Sec. 189. Forms of executing power by agents.
Sec. 190. When agent personally bound.
Sec. 191. Where there is no principal.
Sec. 192. Liability of agent in case of misrepresentation of his authority.
Sec. 193. Matters of which parties dealing with agents are bound to take notice.
Sec 194. Same continued.
Sec. 195. Liability of agents for violation of duties.
Sec. 196. Compensation of officers and agents.
Sec. 197. Frauds of officers and agents.
Sec. 198. Proof of agency.

Sec. 165. **Necessity for corporate agents.** — The principal part of the general business of a corporation must necessarily be performed by agents. All of its officers, as respects such corpora-

tion, are agents. In fact, no act can be directly done by such corporation, except through the voice or vote of its members, who, in this respect, by a fiction of the law, are supposed to represent the ideal and fictitious corporate body, of which they are members. They may act, by a majority, as the act of the corporation; but all other acts, by or on behalf of the corporation, must be performed by agents. The importance of the law of agency in connection with corporations will, therefore, be manifest. The general law of agency as applicable to the relations between the corporation and its agents is of greater importance than where mere private or natural persons only are concerned. For corporations must necessarily employ them. They have no other alternative. Each officer, including the directors, managers or trustees, are agents of the corporation; besides, it is usually necessary, in carrying on the objects of private corporations, to employ agents for special purposes. In all acts of the corporation, by or through agents, the general doctrine applies that what one does by the agency of another, he does himself, the familiar maxim being, *qui facit per alium, facit per se.*

SEC. 166. **General limitations on the authority of agents.** — It may be further observed that the authority of corporate agents can never exceed the rights, powers and authority of the principal, and is usually less. It is seldom that all the powers of the corporation are vested in the board of directors, although they are usually the highest and most important officers and agents of a corporation. The powers and authority of officers and agents may be, and with the more important of them, usually are, limited by either the fundamental law or the by-laws of the organization. But the authority of minor and inferior agents is usually prescribed and limited by acts and resolutions of the corporation, or the immediate, and for most purposes general agents, the board of directors, whose powers in this respect, as well as others, may, as we have seen, be also limited by its organic or constating laws.

SEC. 167. **Directors as agents.** — We have already considered the agency of directors in treating of those officers.[1] They are the

[1] See chap. 6, *ante.*

most important of corporate agents, as on them usually devolve the management of all the affairs of the corporation. In view of the usual powers conferred upon them, they may almost be said to be the corporation, the reserved powers of the corporation in a majority of cases being the mere right to annually express, through the members at large, the corporate will as to the policy and management of the corporate affairs by an election of such directors or managers as will execute such will. If the directors do not manage the affairs of the corporation intrusted to them with prudence or discretion in the opinion of the majority of the members representing a majority of the shares of stock, such members may replace them with others, at any meeting of the corporate body for such an election, provision for which is usually made in the fundamental law of the corporation; and thereby the corporate will, in these respects, in theory at least, may be executed.

Sec. 168. **Appointment of agents, use of seal, etc.** — The use of the seal for the appointment of many, if not most, of corporate agents, as well as in the making of most of the various contracts, required in the execution of the powers and objects of corporations created for various purposes, has, in modern times, been practically abandoned. It is no longer regarded as the corporate voice, or as an important evidence of corporate assent.[1] In fact the practice of using the seal has been almost abandoned. The

[1] The strict rule of the ancient English law, requiring acts of a corporation to be done by a sealed instrument, was very early relaxed as respected the appointment of corporate agents, so far as to permit an agent to be appointed without deed, in cases where the service was unimportant or ordinary, where haste was required, etc., though it has been more strictly retained where the agency affected real property interests or matters of an important character. On the history of the modern relaxation of this rule in England, consult Horn v. Ivy, 1 Ventr. 47; Cary v. Matthews, 1 Salk. 191; Wilmot v. Mayor, etc., of Coventry, 1 Y. & C. 518; Dumpor v. Syms, Cro. Eliz. 815; Cooper v. Gooderich, id. 862; Bailiffs, etc., of Ipswich v. Martin, Cro. Jac. 411; Erneley v. Walroud, Dyer, 102 *b*; East London Water Works Co. v. Bailey, 4 Bing. 283; Edwards v. Grand Junction Canal Co., 1 Mylne & C. 659, 672; Murray v. East India Co., 5 B. & Ald. 204; Arnold v. Mayor of Poole, 4 Mann. & G. 893; Smith v. Cartwright, 6 Exch. 927; 6 Eng. L. & Eq. 528. For the early rules relative to the mode of appointing an agent to demand rent for a corporation, and to distress for non-payment, see Knap v. Jewelch, 1 Brownl. 138; case of Master, etc., of Emanuel College, 2 id. 175; Year B. 1 Edw. 5 fol. 5, pl. 10; id., 2 Rich. 3, fol. 7, pl 13; 7 Hen. 7, fol. 10, pl. 2.

Bank of England may authorize a person to sign notes, by mere vote. See Rex v. Bigg, 1 Strange, 18.

Where the act of incorporation empowers the directors to appoint and displace any of the officers of the company, the appointment of an at-

record of the corporate will, either as expressed by the majority of its members in attendance at a corporate meeting, or by the majority of the directors at a meeting duly called, is the highest and best evidence, and agents for any and all purposes may be thus appointed and constituted, without any other written authority, or any authentication thereof by the corporate seal. The technical doctrine that a corporation could not contract except under its seal, or in other words, could not make a promise, if it ever had been fully settled, must have been productive of great mischiefs. Indeed, as soon as the doctrine was established that its regularly appointed agents could contract in their name without seal, it was impossible to support it; for, otherwise, the party who trusted such contract would be without remedy against the corporation. Accordingly, it would seem to be a sound rule of law, that wherever a corporation is acting within the legitimate purposes of its institution, all parol contracts made by the authorized agents are express promises of the corporation; and all duties imposed on them by law, and all benefits conferred at their request, raise implied promises for the enforcement of which an action will lie." [1]

The doctrine that every thing, or that even important acts must be done by deed under the corporate seal, cannot be now supported. On the contrary, it is well established that an agent may be appointed merely by a vote of the corporation, or of the boards of directors, and that his acts, within the scope of his authority thus conferred, and within the powers of the corporation, will bind the corporation.[2]

torney to the company need not be under seal. See Reg. v. Cumberland, 5 Dowl. & L. 431.

In this country, it is not only well established that the corporate seal is not necessary to indicate the appointment of an agent, Bank of Columbia v. Patterson, 7 Cranch, 299, but, also, that they may be appointed by parol. City of Detroit v. Jackson, 1 Mich. 106; Nicholas v. Oliver, 36 N. H. 218; Randall v. Van Vechten, 19 Johns. 60.

[1] Bank of Columbia v. Patterson, 7 Cranch, 299; Gray v. Portland Bank, 3 Mass. 364; Worcester T. Co. v. Willard, 5 id. 80; Gilmore v. Pope, id. 491; Bank of Metropolis v. Guttschlick, 14 Pet. 19. A corporation may employ an agent to perform services consonant with its general design, without any specific authority for that purpose conferred by the charter. Kitchen v. Cape Girardeau, etc., R. Co., 59 Mo. 514. See, as to admissions of superintendent of a street railway, justifying an assault by one of its drivers, Malecek v. Tower Grove R. Co., 57 Mo. 17.

[2] The Bank of United States v. Dandridge, 12 Wheat. 64; Green's Brice's Ultra Vires, 356 *et seq.*, and notes; Chesapeake, etc., Can. Co. v. Knapp,

Sec. 169. **What is within the scope of the agent's authority.** — Among the most difficult questions in the law of agency is the one which involves the question, whether the acts of an agent are within the scope of his authority.[1] The determination of this question frequently involves a consideration of the objects and purposes of the corporation; a construction of the fundamental laws of its being; a consideration of the customs in different countries and states in reference to the general powers and duties of various officers and agents; the general statutory provisions relating to it; and the general customs of the corporation, and of the community where it is established or does business. Authority conferred upon an agent may be general or special, and the former may be general, but limited to a particular matter. But whether general or special, and whether conferred orally or by writing, and authenticated with the corporate seal, the authority conferred is always held to confer the usual means of accomplishing the object. Thus if a general authority is given to collect, receive, and pay all the debts due by, or to, the principal, it will occur to every one, who reflects upon the nature of such a trust, that numberless arrangements may be required fully to accomplish the end proposed; such as settling accounts, adjusting disputed claims, resisting unjust claims, answering or defending suits; and these subordinate powers (or as they are sometimes called mediate powers) are, therefore, although not expressly given, understood to be included in, and a part of, or incident to, the primary power.[2] In accordance with this doctrine it has been held that authority to procure a note to be discounted, implied an authority to indorse

9 Pet. 541, Randall v. Van Vechten, 19 Johns. 65; Baptist Church v. Mulford, 3 Halst. 182; Perkins v. Washington Ins. Co., 4 Cow. 645; Lathrop v. Bank of Scioto, 8 Dana, 115; Savings Bank v. Davis, 8 Conn. 191; Union Bank of Maryland v. Ridgeley, 1 H. & G. 424; Legrand v. Hampden-Sidney College, 5 Munf. 324; Bates v. Bank of Alabama, 2 Ala. 461; Stamford Bank v. Benedict, 15 Conn. 445; City of Detroit v. Jackson, 1 Doug. (Mich.) 106; St. Andrew's Bay Land Co. v. Mitchell, 4 Fla. 192.

[1] Blanchard v. Blackstone, 102 Mass. 343; Mechanics' Bank v. Bank of Columbia, 5 Wheat. 326; Hopkins v. Mehaffy, 11 S. & R. 126; Regents, etc., v. Detroit, etc., 12 Mich. 138; Sweetzer v. Mead, 5 id 107; Bank of Metropolis v. Guttschlick, 14 Pet. 19; Story on Agency, §§ 154, 260, 266, 277; Bank of Columbia v. Patterson, 7 Cranch, 299; yon v. Adamson, 7 Iowa, 509; Am. Lead. Cas. 602; Mott v. Hicks, 1 Cow. 513.

[2] Howard v. Baillie, 2 H. Bl. 618; Withington v. Herring, 5 Bing. 442; 2 Bell's Com. 387, art. 412 (4th ed.); Rogers v. Kneeland, 10 Wend. 218; Peck v. Harriott, 6 S. & R. 146; Sprague v. Gillett, 9 Metc. 91; Fowler v. Bledsoe, 8 Humph. 509.

it in the name of the principal and bind him by such indorsement, as such a course would ordinarily be necessary in order to accomplish the purposes desired.[1]

So an authority to adjust a loss on a policy has been held to confer the power to submit the matter to arbitration;[2] an authority to sell lands includes an authority to receive the purchase-money;[3] an authority to purchase grain includes the right to waive or modify a contract made in reference to grain;[4] an authority to sell a horse carries, by implication, the authority to warrant, unless restricted in this respect.[5] And it is also held that the authority includes all the various means which, under the circumstances of the case, are allowed by the custom or the usages of trade. Thus, if an agent is authorized to sell goods, this will be construed to authorize the sale to be made upon credit, as well as for cash, if this course is justified by the usages of trade, and the credit is not beyond the usual period; for it is presumed that the principal intends to clothe his agent with the power of resorting to all the customary means to accomplish the sale, unless he expressly restricts him.[6] And where a municipal corporation clothed its agents with full power and authority to make a contract, which was made accordingly, it was held binding upon the corporation, though there was no formal acceptance of the same by vote, and even where it was afterward rejected by the corporation.[7]

SEC. 170. **Powers implied by virtue of office.** — An officer of a corporation has usually, by virtue of his office, the authority, in the absence of express provisions conferring it or limitations contained in the fundamental laws or other regulations by the corporation, to perform all the duties usually belonging or appertain-

[1] Andrews v. Kneeland, 6 Cow. 354.
[2] Goodson v. Brooke, 5 Camp. 163.
[3] Peck v. Harriott, 6 S. & R. 149.
[4] Anderson v. Coonley, 21 Wend. 279.
[5] Fenn v. Harrison, 3 T. R. 757; 3 Chit. Com. and Man. 200; Paley on Agency, 209; 1 Bell's Com. 387, art. 412 (4th ed.). But the right to warrant in such cases has been denied. See Gibson v. Colt, 7 Johns. 390; Nixton v. Hyserott, 5 id. 58.
[6] Story on Agency, § 60; Paley on Agency, by Lloyd (3d ed.), 198, note; 1 Livermore on Agency 103; Newson v. Thornton, 6 East, 17; 2 Kent's Com. 622; McKinstry v. Pearsall, 3 Johns. 319; Van Allen v. Vanderpool, 6 id. 69; Goodenow v. Tyler, 7 Mass. 36; Clark v. Van Northwick, 1 Pick. 343; Laussatt v. Lippincott, 6 S. & R. 386; Gerbler v. Emery, 2 Wash. (C. C.) 413; Greely v. Bartlett, 1 Greenl. 172; Forrestier v. Bordman, 1 Story. 43.
[7] Davenport v. Hallowell, 10 Me. 317; Junkins v. School District, 39 id. 220; Willard v. Newburyport, 12 Pick. 227; Kingsbury v. School District, 12 Metc. 99.

ing to the office. The usual power conferred upon the president, *virtute officii*, where there are no limitations upon his rights, is the authority to preside at meetings of the corporation or boards of directors; to sign contracts and execute deeds of the corporation; and, perhaps, generally to have charge of the corporate seal. So, there is an implied power, *virtute officii*, conferred upon the cashiers of banks to transfer and indorse negotiable securities held by banks; as by virtue of the office he is intrusted with the notes and securities and other funds of the banks, and is usually held out to the world as the general agent for the negotiation, management and disposal of them. No special authority for this purpose is necessary to be shown, as such authority would be presumed.[1] And where a cashier of a bank habitually exer-

[1] Wild v. Bank of Passamaquoddy, 3 Mason, 505. See, also, State v. Commercial Bank, 6 S. & M. 237.

In Massachusetts it has been held that neither a president nor a cashier of a bank has, *ex officio*, authority to transfer the property or other securities of the company, but must have express authority to that effect from the corporation at large, or the directors, as the case may be. Hallowell Bank v. Hamlin, 14 Mass. 178; Hartford Bank v. Barry. 17 id. 97. Neither, it is said, can the president or cashier charge a bank with any special liability for a deposit contrary to its usage, without the previous authority or subsequent assent of the corporation. Foster v. Essex Bank, 17 Mass. 505. In Massachusetts, however, it is admitted that a cashier has authority, *ex officio*, to indorse a note, the property of the bank, as a measure preliminary to a suit, and to authorize a demand upon the maker and notice to the indorser; Hartford Bank v. Barry, 17 Mass. 97; and to give new certificates of stock to a purchaser of shares sold on a tax warrant, on its face good, and issued by lawful authority, though the tax might have been improperly assessed. Smith v. Northampton Bank, 4 Cush. 1.

These narrow limits on a cashier's *ex-officio* power are, however, by no means generally acknowledged. On the contrary, it is said that a cashier is usually intrusted with all the funds of a bank, in cash, notes, bills, etc., to be used from time to time for the ordinary and extraordinary exigencies of the bank. He receives, directly or through the subordinate officers, all moneys and notes. He delivers up all discounted notes and other property when payments have been made. He draws checks, from time to time, for moneys, whenever the bank has deposits. He acts as the arm of the bank in carrying out the business arrangements and agencies assumed by the bank through the directors. In short, he is considered the executive officer, through whom and by whom the whole moneyed operations of the bank in paying or receiving debts, or discharging or transferring securities, are to be conducted. It does not seem too much then to infer, in the absence of all positive restrictions, that it is his duty as well to apply the negotiable funds, as the moneyed capital of the bank, to discharge its debts and obligations. Fleckner v. United States Bank, 8 Wheat. 360; Lafayette Bank v. State Bank of Illinois, 4 McLean (C. C.), 208; Ridgway v. Farmers' Bank, 12 S. & R. 265; Bank of Ky. v. Schuylkill Bank, 1 Pars. Sel. Cas. 243; Everett v. United States, 6 Port. (Ala.) 166; Stamford Bank v. Benedict, 15 Conn. 445; Crocket v. Young, 1 S. & M. 241; State v. Commercial Bank, 6 id. 237; Carey v. Giles, 10 Ga. 9; Ryan v. Dunlap, 17 Ill. 40.

The inducement to the transfer need not appear, but the courts will presume the transfer to have been properly made by the cashier, in the absence of proof to the contrary. Ib.

cises powers as such with the knowledge and acquiescence of the directors, this entitles the public and persons dealing with the bank to the benefit of a conclusive presumption that the party thus acting is authorized so to act, provided it is not in violation of the laws of its constitution, or contrary to the limitations of power contained in its organic laws or constating instruments.[1] The regular and lawful appointment of such an officer would be inferred from the circumstances. And the bank, in such a case, would be estopped, where the interests of third parties dealing with such bank required it, from denying the authority of such officer, and his power to act and perform the duties usually performed by such an officer. "If," says Justice STORY, "he was held out as an authorized cashier, that character was equally applicable to all who deal with the bank, in transactions beneficial as well as onerous to the bank."[2] And this recognition and permission of official acts is the same, whether the officer receives his appointment or election from the corporate body at large, or from a duly constituted board of directors.[3]

SEC. 171. **Powers of president.** In relation to the powers and authority of a president of a corporate body, it seems well settled that he may, as incidental to the office, and the execution of the trust reposed in him *virtute officii*, perform all the duties usually incumbent upon such officer, or such as custom or necessity has imposed upon the officer, or such as is imposed by the general course of business of the corporation. In relation to this

[1] Merchants' Bank v. State Bank, 10 Wall 604; Fleckner v. Bank of United States, 8 Wheat. 338; Minor v. Mechanics' Bank, 1 Pet. 46; Bank of United States v. Dunn, 6 id. 51; United States v. Bank of Columbus, 21 How. 256; Baldwin v. Bank of Newburgh, 1 Wall. 234; Badger v. Bank of Cumberland, 26 Me. 428; Mussey v. Eagle Bank, 9 Metc. 306; Farmers' Bank v. Butchers' Bank, 4 Duer, 219; S. C., 16 N. Y. 125; Cooke v. State Bank, 52 id. 96; Bank of Pennsylvania v. Reed, 1 W. & S. 101; Ridgway v. Farmers' Bank, 12 S. & R. 256; Merchants' Bank v. Marine Bank, 3 Gill, 96; Sturges v. Bank of Circleville, 11 Ohio St. 153; Robinson v. Bealle, 20 Ga. 275; Ryan v. Dunlap, 17 Ill. 40; State v. Commercial Bank, 14 Miss. 218.

[2] Bank of United States v. Dandridge, 12 Wheat. 64. See, also, Burgess v. Pue, 2 Gill, 254; Barrington v. Bank of Washington, 14 S. & R. 421; Troy T. Co. v. McChesney, 21 Wend. 296; Warren v. Ocean Ins. Co., 16 Me. 439; Badger v. Bank of Cumberland, 26 id. 428; Davidson v. Borough of Bridgeport, 8 Conn. 472; Waite v. Mining Co., 36 Vt. 18.

[3] Conover v. Insurance Co., 1 N. Y. 290; Lohman v. New York R. Co., 2 Sandf. 39; Beers v. Phœnix Glass Co., 14 Barb. 358; Mead v. Keeler, 24 id. 20.

subject, in a recent case in Illinois, Walker, J., observes: "As we understand the law, a corporate body may, unless otherwise provided by their charter, appoint any member of the body, or other person, by their by-laws or by resolution, an agent to transfer or dispose of their property or negotiable securities. No officer of the body has that exclusive power unless given by the charter. They may confer power on the president, treasurer, secretary, or other officer or person. But in the absence of both statutory authority and regulations of the body on the subject, the presumption might be indulged that the president, as the head of the organization, would have authority, if incident to the organization, or in conformity with the usage and custom of business. The doctrine seems to be settled that the president of a corporate body being its head, and through whom the corporate affairs of the corporation are constantly performed, and such acts as are incident to the execution of the trust reposed in him, or such as custom or necessity has imposed upon the office, he may perform without express authority. And it is immaterial whether such authority exists by virtue of his office, or is imposed by the course of business of the company."[1] But it has been held in Massachusetts, that neither the president nor the cashier of a bank has, *ex officio*, authority to transfer the property or securities of the bank, but that for this purpose they must have an express authority from the corporation or its directors.[2] It has been held, also, that the receiving teller of a bank, where there is one, is the only proper officer to receive deposits, and that, if he receives the funds of a stranger and promises to apply them to the payment of a bill or note, he acts as the agent of the stranger, and not of the bank, and that the bank is not liable therefor;[3] and that if he exceeds his authority as a teller, and certifies a check upon the bank as "good," he cannot bind the bank in this way to pay the amount of such check to any person who may afterward present

[1] Mitchell v. Deeds, 49 Ill. 416; Chicago, etc., R. Co. v. Coleman, 18 id. 297. See, also, Elwell v. Dodge, 33 Barb. 336.

[2] Hallowell Bank v. Hamlin, 14 Mass. 178; Hartford Bank v. Barry, 17 id. 97; Foster v. Essex Bank, id. 94; Pendleton v. Bank, 1 T. B. Monr. 179 where it was held that a cashier had no authority *ex officio* to accept bills of exchange.

[3] Thatcher v. Bank of New York, 5 Sandf. 121; Mussey v. Eagle Bank, 9 Metc. 306.

it, even where there is a usage of that kind.[1] But this doctrine would appear unsound, and in New York it has been held that if a teller has made it a practice to certify checks, and of entering the same in a book, for the benefit of the officers of the bank, the bank is liable for checks so certified, though the teller fails to make the entry, and even though the bank has no funds of the drawer, provided the person claiming the same is a *bona fide* holder of them.[2]

[1] Mussey v. Eagle Bank, 9 Metc. (Mass.) 306.

[2] Farmers' Bank v. Butchers' Bank, 16 N. Y. 125.

In this case the action was by a *bona fide* holder of a negotiable check, which had been certified to be good by the paying teller of the bank (the defendant) on which it was drawn, and it was held that the bank under such circumstances was liable, although the drawer had no funds in the bank with which to pay the check, and the teller exceeded his authority in certifying the check as good. It appeared in this case that the teller was in the habit of certifying the checks of customers with the knowledge of the officers of the bank, and that he was furnished with a book for the express purpose of keeping a memorandum of such checks. The court in this case observe: "His authority to certify, therefore, in a proper case, cannot be disputed. But it is insisted that his power extends only to cases where the bank had funds in hand, he having been expressly prohibited from certifying in the absence of funds, and hence that the bank is not bound. It may be doubted whether such a prohibition adds any thing to the restrictions which would otherwise exist upon the powers of the agent. A teller, acting under a general power to certify checks, would be guilty of an excess of authority and a clear violation of his duty if he certified without funds. * * * The bank selects its teller and places him in a position of great responsibility. The trust and confidence thus reposed in him by the bank leads others to confide in his integrity. Persons having no voice in his selection are obliged to deal with the bank through him. If, therefore, while acting in the business of the bank and within the scope of his employment, so far as it is known or can be seen by the party dealing with him, he is guilty of misrepresentation, ought not the bank to be held responsible? * * * It is conceded that every one taking the checks in question would be presumed to know that the teller had no authority to certify without funds. But this knowledge alone would not apprise him that the certificate was defective and unauthorized. To discover that he must not only have notice of the limitations of the powers of the teller, but of the extrinsic fact that the bank had no funds; and as to this extrinsic fact, which he cannot justly be presumed to know, he may act upon the representation of the agent. There is a plain distinction between the terms of a power and facts entirely extraneous, upon which the right to exercise the authority conferred may depend. One who deals with an agent has no right to confide in the agent as to the extent of his powers. If, therefore, a person, knowing a bank has no funds of the drawer, should take a certified check upon the representation of the cashier, or other officer by whom the certificate was made, but he was authorized to certify without funds, the bank would not be liable. But in regard to the extrinsic fact whether the bank has funds or not the case is different. That is a fact of which a stranger who takes a check certified by the teller cannot be supposed to have any means of knowledge. Were he held bound to ascertain it, the teller would be the most direct and reliable source of knowledge, and he already has his written representation upon the face of the check. If, therefore, one who deals with an agent can be permitted to rely upon the representation of the

Sec. 172. **Authority by usage.** — The exercise of powers by one assuming to be an officer or agent, as president, cashier, or treasurer, with a knowledge by the corporation, or its immediate representative, the board of directors, of such acts, within the scope of the corporate powers, and such as usually pertain to the office, would justify third persons and parties dealing with such corporation, to treat such officer or agent as lawfully appointed, and rightfully exercising the duties of the office.[1] And where officers are acting generally within the apparent scope of their authority, this will, as to third persons, raise a presumption that they have been authorized by all the required formalities.[2]

Sec. 173. **Apparent authority.** — The doctrine frequently announced is, that where a corporation places a person in a position which implies responsibility, and thereby leads others to confide

agent as to the existence of a fact, and to hold the principal responsible in case the representation is false, this would seem to be such a case. It is, I think, a sound rule, that where the party dealing with an agent has ascertained that the act of the agent corresponds in every particular in regard to which such party has or is presumed to have any knowledge with the terms of the power, he may take the representations of the agent as to any extrinsic fact which rests peculiarly within the knowledge of the agent, and which cannot be ascertained by comparison of the power with the act done under it. The familiar case of the giving of a negotiable partnership note by one of the partners for his own individual benefit affords an apt illustration of this rule. Each of the partners is the agent of the partnership as to all matters within the scope of the partnership business, and can bind the firm by making, indorsing and accepting bills and notes in such business; but he has no more authority than a mere stranger to execute such paper in his own business, or for the accommodation of others. If he gives the partnership note or acceptance for his own debt, it is void in the hands of any party having knowledge of the consideration for which it is given; but when negotiated to a *bona fide* holder, the firm is precluded from questioning the authority of the partner, and is effectually bound. Livingston v. Hastie, 2 Caines, 246; Lansing v. Gaine, 2 Johns. 300; Laverty v. Burr, 1 Wend. 529; Williams v. Walbridge, 3 id. 415; Boyd v. Plumb, 7 id. 309; Gansevoort v. Williams, 14 id. 133; Joice v. Williams, id. 141; Wilson v. Williams, id. 146; Catskill Bank v. Stall, 15 id. 466; 18 id. 466. * * * The fact of the agency, and the trust and confidence reposed by the principal in the agent, create a broad line of distinction between them; and it is this trust and confidence which constitute the foundation of the liability, and which justify the party dealing with the agent in relying upon his representation in respect to facts especially within the agent's knowledge."

[1] Merchants' Bank v. State Bank, 10 Wall. 604; Fleckner v. Bank of the U. S., 8 Wheat. 338; Bank of U. S. v. Dunn, 6 Pet. 51; United States v. Bank of Columbus, 21 How. 356; Baldwin v. Bank of Newburgh, 1 Wall. 234; Badger v. Bank of Cumberland, 26 Me. 428; Cooke v. State Bank, 52 N. Y. 96.

[2] Bissell v. Michigan, etc., R. Co., 22 N. Y. 258; Green's Brice's Ultra Vires, 427 *et seq.*, and notes.

in his integrity, especially in matters pertaining to the office or agency, and peculiarly within the knowledge of the officer or agent, the corporation shall be responsible for any misrepresentation, negligence or fraud of such officer or agent, whereby a party acting in good faith with such officer or agent has sustained a loss. This is sometimes placed upon the familiar maxim in equity that where one of two innocent persons must suffer by the acts of another, he who has enabled such person to occasion the loss must sustain the damage caused thereby. Or, in other words, "he who without intentional fraud has enabled any person to do an act, which must be injurious to himself or to another party, shall himself suffer the injury rather than the innocent party who has placed confidence in him."[1] But mere general reputation without proof of acts of charge and management in the office is held to be inadmissible to show that the officer assuming to act is the officer he claims to be.[2] What has been said in reference to cashiers of banks would, of course, be applicable to the treasurer of a corporation for pecuniary emolument generally, and the general principles and doctrine we have stated would also be equally applicable to all other officers of the corporation.

SEC. 174. **Distinction between executed and executory contracts in case the agent exceeds his authority.** — If the agent or corporation wholly exceeds all authority conferred upon or existing in the corporation, in entering into contracts with third parties, they are *ultra vires* and usually void.[3]

But this doctrine is limited to executory contracts. For where the contract has been executed, and the corporation has

[1] Story on Agency, § 127. See, also, 1 Story on Eq. Jur., §§ 384–394; Fitzherbert v. Mather, 1 T. R. 12. Where one of two innocent parties must suffer a loss, he should suffer it who by his own acts has occasioned the confidence and the loss. Neville v. Wilkinson, 1 Bro. Ch. 543; 3 P. Wms. 74; Scott v. Scott, 1 Cox, 378; Evans v. Bicknell, 6 Ves. 173; Pearson v. Morgan, 2 Bro. Ch. 388; Com. Dig., chap. 4 W. 28; Paley on Agency, by Lloyd, 194, 200, 201 (3d ed.); Whitehead v. Tuckett, 15 East, 401; 3 Kent's Com. 621; Guerreiro v. Peile, 3 B. & Ald. 616; North River Bank v. Aymar, 3 Hill, 262; Commercial Bank v. Kortright, 22 Wend. 348; Locke v. Stearns, 1 Metc. (Mass.) 560.

[2] Litchfield Iron Co. v. Bennett, 7 Cow. 234; Clark v. Benton Manuf. Co., 12 Wend. 218; Waite v. Mining Co., 36 Vt. 18. If, however, a treasurer is in the practice of accepting drafts, with the knowledge and assent of the directors, this is proof of his authority. Partridge v. Badger, 15 Barb. 146; Mead v. Keeler, 24 id. 20; Williams v. Cheeney, 3 Gray, 215; Lester v. Webb, 1 Allen, 34; Dougherty v. Hunter, 54 Penn. St. 380.

[3] See *post*, chap. 9.

received the benefit of the same, it cannot usually avoid its obligations incurred thereby, even though the agent entirely exceeded the authority he possessed in making the contract. Thus, if one assuming to act for a corporation, but without authority, employs another, and he renders service to it, with the knowledge of the officers, especially such as would have authority to employ such party, this would entitle the employed to recover of the corporation. But if the contract was merely entered into and not executed, and the corporation refuses to execute the contract on its part, it might successfully defend against any claims, on the ground of a breach of contract on its part.[1] But this question involves the consideration of the doctrine of *ultra vires*, which we propose to consider in a following chapter.[2]

Corporations can usually be bound only by those contracts executed by its agents that come within the scope of the agent's authority, and do not exceed the powers of the corporation in reference to the contract. And it seldom happens that the corporation confers all its powers upon an agent.[3]

Sec. 175. **Limitations of power as to time.**— The authority of a corporate agent as to time may be limited in various ways. First, if an officer, it would be limited to the time for which he was appointed or elected, and his authority as an agent would cease with the expiration of the term of his office.[4] Second, if the agent is appointed for a special purpose, the authority of the agent will cease when such special object is accomplished.[5] Third, it may be limited as to time by the very terms of the appointment. Fourth, it may usually be terminated any time by

[1] Fister v. La Rue, 15 Barb. 323; Parish v. Wheeler, 22 N. Y. 503; Tracy v. Talmage, 14 id. 162; De Groff v. American Linen Thread Co., 21 id. 124; Bissell v. Michigan, etc., R. Co., 22 id. 258; White v. Franklin Bank, 22 Pick. 181; Gould v. Town of Oneonta, 3 Hun, 401; Hazelhurst v. Savannah, etc., R. Co., 43 Ga. 13; Southern Life Ins. Co. v. Lanier, 5 Fla. 110.

[2] See *post*, chap. 9; Green's Brice's Ultra Vires, 371 *et seq.*, and notes.

[3] Mechanics' Bank v. Bank of Columbia, 5 Wheat. 337; Clark v. Washington, 12 id. 40; Bank of U. S. v. Dandridge, id. 83; Mount Sterling v. Looney, 1 Metc. (Ky) 550; New Haven Co. v. Hayden, 107 Mass. 525; Essex T. Corp. v. Collins, 8 id. 299; Washington Bank v. Lewis, 22 Pick. 24; Hayward v. Pilgrim Society, 21 id. 270; Steward v. Huntingdon Bank, 11 S. & R. 267; Stephenson v. New York R. Co., 2 Duer, 341; Cox v. Midland R. Co., 3 Exch. 268; Kelly v. Troy Ins. Co., 3 Wis. 254; Exchange Bank v. Monteath, 17 Barb. 171.

[4] Curling v. Chalken, 3 M. & S. 510; Peppin v. Cooper, 2 B. & Ald. 431.

[5] Seton v. Slade, 7 Ves. 276.

the power which constituted the agent.[1] But where the authority might be terminated in any of these ways, still if the agent continues to act, and the corporation continues to recognize his acts, as such, or if the corporation still holds him out by any acts of theirs as its agent, it would be estopped from denying the agency, and, on general principles, would be held liable for his acts done in the name of the company and within the scope of the original authority.[2] The doctrine of the law in reference to agents of natural persons is, that the agency is terminated by the death of the principal. We have shown that the doctrine of the immortality of corporations is not literally correct, for although they have the property of perpetual succession, the life of the artificial person may be terminated in various ways, and if terminated by any means, the same consequences would result in respect to its agents as though it were a natural person.[3] But, where an agent receives his appointment from the board of directors, or other officers, or general or special managers of the corporation, the expiration of their office, or their removal for any cause, would not, *per se*, result in a termination of the agency. For, "though the power of appointing a particular officer or agent of a corporation be vested in a body, as the directors, managers, etc., existing within it, it does not follow that the authority of the agent is determined by the removal of the board which appointed him; or that because they are appointed but for a year, his agency expires with that period.[4] Thus, where a letter of attorney was given by the directors of a bank, it was held that the attorney might execute his power under it, after the term for which the directors were appointed had expired, since the constituent, to-wit, the corporation, still continued in existence.[5] And where the charter of a bank empowered the directors for the time being to appoint a cashier, and such other officers and servants under them as should be necessary for executing the business of the corporation, it was decided by the supreme court of Maryland, that the office and

[1] Story on Agency, § 463 *et seq.*

[2] Northern Cent. R. Co. v. Bastian, 15 Md. 494. See, also, Clark v. Pratt, 47 Me. 55; Ang. & Am. on Corp., § 283.

[3] Union Bank v. Ridgely, 1 H. & G. 333; Ang. & Am. on Corp., § 289.

[4] Anderson v. Longden, 1 Wheat. 85; Bown v. County of Somerset, 11 Mass. 221; Northampton Bank v. Pepoon, 3 Pick. 288; Dedham Bank v. Chickering, id. 335.

[5] Id.

power of the cashier did not cease with the office and power of the directors who appointed him, nor was of annual duration only because theirs was; but that the duration of the cashier's office was limited only by the duration of the charter of the bank, subject always to be terminated by the directors as occasion might require.[1] The mere fact that an agent is, in some respects, the deputy of the annual officers by no means proves that he is an annual officer himself; for it may be that his appointment was made to remedy the inconvenience of annual officers and the deficiency of service which may result from the casual interruption of an annual election." [2]

Sec. 176. **Mode of executing contracts by agents.** — It may be stated as a universally recognized doctrine, that where the organic or constating acts or instruments of a corporation provide in what manner contracts in its behalf shall be executed, such requirements must be pursued, and all persons dealing or contracting with such corporation would be required to take notice of such provisions, otherwise the acts of agents or of the corporation would be *ultra vires* and void.[3] But in England it has been held that, when the deed of settlement of a joint-stock company required the directors to use certain formalities in the transfer of shares, but which for the period of ten years had been disregarded, the corporation, after so long and universal a disregard of their deed, could not set up a want of such formality to the prejudice of third parties.[4] This doctrine has also been recognized by the supreme court of the United States, Campbell, J., observing: "This principle does not impugn the doctrine that a corporation cannot vary from the act of its creation, and that persons dealing with a company must take notice of whatever is contained in the law of its organization. * * * But the principle includes those cases in which a corporation acts within the range of its general authority, but fails to comply with some formality or regulation which it should not have neglected, but which it has

[1] Union Bank v. Ridgely, 1 H. & G. 431; Exeter Bank v. Rogers, 7 N. H. 38; Thompson v. Young, 2 Ohio, 334; Dedham Bank v. Chickering, 3 Pick. 335.

[2] Curling v. Chalklen, 3 M. & S. 509.

[3] Williams v. Chester R. Co., 5 Eng. L. & Eq. 497.

[4] Bargate v. Shortridge, 5 H. L. C. 297.

chosen to disregard."[1] But the contracts of corporations need not necessarily be under seal;[2] and it is not essential that the appointment of the agent be under the common seal, or even evidenced by a recorded vote, but may be inferred from circumstances, such as the adoption and recognition of the agent's acts.[3]

SEC. 177. **How contracts by, should be executed.** — In the execution of a contract of the corporation by an agent, the proper way is to sign the corporate name to the instrument and the name of the agent acting for it, and to seal it with the corporate seal. It should appear on the face of the instrument that the contract is the contract of the corporation and not the personal act and contract of the agent. He should execute the instrument, so as in form to bind the principal; and it should show that the principal is intended to be bound by its provisions and not the party who acts for him. For it has been said, "that no person in making a contract is considered the agent of another, unless he stipulates for his principal by name, stating his agency in the instrument which he signs. This principle has been long settled, and has been frequently recognized, nor do I know of an instance in the books of an attempt to charge a person as the maker of any written contract, appearing to be signed by another, unless the signer professed to act by procuration or authority, and stated the name of the principal on whose behalf he gave his signature. It is also held that whatever authority the signer may have to bind another, if he does not sign as agent or attorney he binds himself and no other person."[4] But this doctrine has undoubtedly been much relaxed in modern times, and even less formalities in the execution of instruments by agents would undoubtedly serve to bind the principal, especially in the various common contracts into which corporations may enter by

[1] Zabriskie v. Cleveland, etc., R. Co., 23 How. (U. S.) 381. See, also, Amey v. Allegheny City, 24 id. 364; Connecticut Ins. Co. v. Cleveland, 41 Barb. 9.

[2] See *post*, chap. 10.

[3] Dill. on Corp., § 374; Story on Agency, § 52; Fanning v. Gregorie, 16 How. (U. S.) 524; Abby v. Billups, 35 Miss. 618; Allton v. Mulledy, 21 Ill. 76; Western, etc., Society v. Philadelphia, 31 Penn. St. 175; Clark v. Washington, 12 Wheat. 40.

[4] PARKER, J., in Stackpole v. Arnold, 11 Mass. 27. See, also, Bradlee v. Boston Glass Man., 16 Pick. 347; Alfridson v. Ladd, 12 Mass. 173; Savage v. Rice, 9 N. H. 263; Rice v. Gove, 22 id. 158; Minard v. Mead, 7 Wend. 68; Pentz v. Stanton, 10 id. 271; Spencer v. Field, id. 87.

its agents.[1] But whatever modification of the former rule there may have been, it is evident that in the execution of a written instrument the name of the party intended to be bound should appear, and that when an agent executes an instrument he should do it in the name of the party for whom he acts. But if from the whole instrument it appears that the true object and intent is to bind the principal and not the agent, or where the purpose to act for the corporation is manifest from the whole paper, and where it does not appear from it that there is an intention to assume a personal responsibility on the part of the agent, the corporation and not the agent will be bound thereby, even though the agent only signs his own name and affixes his own seal.[2]

[1] See Higgins v. Senior, 8 M. & W. 834; Taintor v. Pendergrast, 3 Hill, 72; New England Ins. Co. v. De Wolf, 8 Pick. 56; 2 Kent's Com. 631.

[2] Regents, etc., v. Detroit, 12 Mich. 138; Sweetzer v. Mead, 5 id. 107; Bank of Metropolis v. Guttschlick, 14 Pet. 19; Story on Agency, § 154.

In such cases, in furtherance of the public policy of encouraging trade, if it can upon the whole instrument be collected, that the true object and intent of it are to bind the principal and not to bind the agent, courts of justice will adopt that construction of it, however informally it may be expressed. Thus, where an agent, duly authorized, made a promissory note thus: 'I promise J. S. or order,' etc., and signed the note 'Pro. C. D. A. B.,' it was held to be the note of the principal and not of the agent, although the words were, 'I promise.' So where A. and B. wrote a note in these words, 'We jointly and severally promise,' and signed it A. and B. for C., it was held to be the note of C., and not of A. and B. the agents. Rice v. Gove, 22 Pick. 158; Long v. Colburn, 11 Mass. 97. So, where the note was 'I promise,' etc., and it was signed by the agent 'For the Providence Hat Manufacturing Company,' A. B., the agent; it was held to be the note of the company and not of the agent. Emerson v. Prov. Hat Manuf. Co., 12 Mass. 237. So, a promissory note of the like tenor, signed by the agent in this manner, 'A. B., agent for C. D.,' has been held to be the note of the principal and not of the agent. Ballou v. Talbot, 16 Mass. 461; Dispatch Line of Packets v. Bellamy Manuf. Co., 12 N. H. 229. So, where a promissory note was in these words, 'I, the subscriber, treasurer of the Dorchester Turnpike Corporation, for value received, promise,' etc., and it was signed 'A. B., treasurer of the Dorchester Turnpike Corporation,' it was held to be the note of the corporation and not of the treasurer. Mann v. Chandler, 9 Mass. 335. See Hills v. Bannister, 8 Cow. 32; Barker v. Mechanics' Fire Ins. Co., 3 Wend. 94; Mott v. Hicks, 1 Cow. 513; Brockway v. Allen, 17 Wend. 40. So, where a note purported to be a promise by 'the president and directors' of a particular corporation and was signed 'A. B., president,' it was held to be the note not of A. B., but of the corporation. Mott v. Hicks, 1 Cow. 513. See, also, Bowen v. Morris, 2 Taunt. 374; Shelton v. Darling, 2 Conn. 435; Brockway v. Allen, 17 Wend. 40. But if the note had been 'I, A. B., president of the corporation (naming it), promise to pay,' etc., it would (it seems) have been deemed to be the personal note of A. B., and not of the corporation. Barker v. Mechanics' Fire Ins. Co., 3 Wend. 94. So, where the agent of a corporation drew a bill of exchange upon the president of the corporation, styling him such, and the latter accepted the bill, it was held that he was not personally liable if he had authority to accept the bill, but the corporation was alone liable. Lazarus v. Shearer, 2 Ala. (N. S.) 718. So,

Thus where a contract was entered into "between a committee appointed by the corporation of the city of Albany for that purpose, of the first part, and John R., Jr., of the second part;" and the parties of the first part agreed to pay for the work to be done, and signed their individual names and affixed their individual seals to the agreement, the authority of the committee to act for the corporation in the premises being conceded, it was held that the members of such committee were not personally liable, and that the remedy for a breach of the contract should be against the corporation.[1] So, where a bill of exchange directed to "A. B., cashier of F. & M. Bank," was accepted by the cashier as follows: "Accepted, A. B., cashier," by writing across the face of the bill; this was held to be the bill drawn

where the agents of a corporation, being duly authorized, made a written contract, as follows: 'We hereby agree to sell,' etc., and signed it as agents of the corporation, it was held that they were not personally bound thereby, but the corporation was. Mary v. Beekman Iron Co., 9 Paige, 188; Evans v. Wells, 22 Wend. 325. * * * So, where, on a sale of real property by a corporation, a memorandum of the sale was signed by the parties, on which it was stated that the sale was made to A. B., the purchaser, and that he and C. D., 'mayor of the corporation on behalf of himself and the rest of the burgesses and commonalty of the borough of Cærmathen, do mutually agree to perform and fulfill, on each of their parts respectively, the conditions of sale,' and then came the signature of the purchaser, and of 'C. D., mayor,' it was held that the agreement was that of the corporation and not that of the mayor, personally; and that consequently the mayor could not sue them. So, where in articles of agreement the covenants were in the name of a corporation without mention of any agent, but the instrument was signed by the president of the corporation, by his private name, on behalf of the corporation, and sealed with his private seal, it was held that he was not personally liable thereon. Hopkins v. Mehaffey, 11 S. & R. 126. On the other hand, unless some agency is apparent on the face of the instrument, it has been not unfrequently held that the principal is not bound, although the agent had full authority to make the contract. Story on Agency, § 147, note. Thus, where a wife had full authority to sign notes for her husband, and she made a note in her own name, not referring to her husband, either in the body of the note or in the signature, it was held that the husband was not bound. Minard v. Mead, 7 Wend. 68. So, where A., B. and C. made a note as follows: 'We, the subscribers, jointly and severally promise to pay D., or order, for the Boston Glass Manufactory, the sum of —,' and signed the note in their own names, without saying 'as agents,' it was held that they were personally bound and not the corporation. Bradley v. The Boston Glass Manufactory, 16 Pick. 347. And where an agent drew a bill for the purchase of goods on account of his principal, and signed the bill A. B., agent, but did not disclose the name of his principal, he was held personally bound by the bill as drawer. Pentz v. Stanton, 10 Wend 271.

[1] Randall v. Van Vechten, 19 Johns. 60. See, also, Dubois v. Canal Company, 4 Wend. 285; Worrall v. Munn, 5 N. Y. 229; Ford v. Williams, 13 id. 577; Richardson v. Scott, etc., Co., 22 Cal. 150. But this doctrine seems to have been denied in Bank of Columbia v. Patterson, 7 Cranch, 299. See, also, Damon v. Granby, 2 Pick. 345.

upon and accepted by the bank, and the bank liable thereon and not the cashier personally.[1] And where a note payable to an insurance company was indorsed, "Without recourse, J. S., secretary," it was held to pass the legal title to the indorsee.[2]

[1] Farmers' Bank v. Troy City Bank, 1 Doug. (Mich.) 457. See, also, Watervliet Bank v. White, 1 Den. 608; Jenkins v. Morris, 16 M. & W. 880; Thompson v. Tioga R. Co., 36 Barb. 79; Bird v. Daggett, 97 Mass. 495.

[2] Elwell v. Dodge, 33 Barb. 336; Scott v. Johnson, 5 Bosw. 213; Merchants' Bank v. McColl, 6 id. 473; Nicholas v. Oliver, 36 N. H. 218; Davis v. Bank of Mobile, 12 Ala. 463; Alexander v. Sizer, L. R., Ex. 102; Sharpe v. Bellis, 61 Penn. St. 69; McIntire v. Preston, 10 Ill. 48. See, also, Nichols v. Frothingham, 45 Me. 220; Bruce v. Lord, 1 Hilt. 247; Wright v. Boyd, 3 Barb. 523; Atlantic Mut. Fire Ins. Co. v. Young, 38 N. H. 451; Dispatch Line, etc., v. Bellamy Manuf. Co., 12 id. 205.

A note signed with the addition of "agent" of a certain corporation, although its terms may be that of an individual promise, may nevertheless be treated as a note of the corporation, if the agent had authority in fact to execute it, or if its execution by him was subsequently ratified. Bank v. Biningsville Cotton Co., 11 Rich. (S. C.), L. 95; Dispatch Line of Packets v. Bellamy Manuf. Co., 12 N. H. 205. Thus where an agent gave a note in the body of which were the words "I promise to pay," the signature being "A., agent for the M. M. Company," and it appeared in evidence that it was in the constant habit of signing notes in this manner, which the company regularly paid, it was held that he was not personally liable. When an agent duly authorized subscribes an agreement in such a manner as to manifest an intent not to bind himself, but the principal, and when by his subscription he has actually bound the principal, then the contract cannot be binding on him personally. No precise form of words is required to be used in the signature; every word must have an effect, if possible; and the intention must be collected from the whole instrument taken together. Hovey v. Magill, 2 Conn. 680.

A bill dated at the office of the corporation, signed with the name of the president, with the addition of his title of office, abbreviated, and directing the contents to be charged "to motive power and account,"— *held*, to be on its face the bill of the corporation, and not that of the signer individually. Olcott v. Tioga R. R. Co., 27 N. Y. 546. So where bills were drawn by an agent of the corporation and accepted by the president, in the name of H. G. & Co. that being the style of the copartnership, merely as a convenient mode adopted by the corporation for raising funds. *Held*, that the company was liable upon them. Evidence that such was the object of the mode of acceptance is admissible in such case. A corporation is bound by the acts of its authorized agent, although the agent contracts in his own name, and does not disclose his principal, if the credit be not given exclusively to the agent. Conro v. Port Henry Iron Co., 12 Barb. 27.

A note in the terms "The O. M. Co. promise to pay, etc.," signed "J. H., trustee," imports an intention to bind the company only; and cannot be enforced against the agent personally. Shaver v. Ocean Mining Co., 21 Cal. 45.

Where the words of the note were, "I promise," and it was signed with the words *for the company* prefixed to the name of the agent,— *held*, that it was the note of the company, and not of the agent. Emerson v. Providence Hat Co., 12 Mass. 237. But a note in the words "I promise to pay, etc., signed by an individual with his own name, may be treated as a contract binding him personally, notwithstanding he adds to his signature a designation of a corporate office held by him, —*e. g.* "trustee," or "president" of the —— company. Such description is treated as merely a description of the person. Fiske v. Eldridge, 12 Gray, 474; Haverhill Mut. Fire Ins. Co. v. Newhall, 1 Allen, 129; Walker v. Bank of N. Y., 9 N. Y. 582; Morell v. Codding, 4 Allen, 403.

SEC. 178. It has even been held that in cases of doubt, as to the intention of the parties to a written instrument, that it was permissible to admit parol evidence to show the facts and the intention of the parties; as that the principal and not the agent should be bound. Thus, where a check was signed by the cashier of a bank without the addition of the word "cashier" to his name, but dated at the bank and made payable to its teller, as it was doubtful whether it was the private or the official act of the cashier, it was held proper to show this by parol evidence.[1]

The general principles applicable in case of the agents of a corporation are the same as in case of the agents of natural persons; and reference may be had to special treatises on agency for a fuller illustration of the law relating to the sufficiency of the execution of contracts by agents to bind the principal.

SEC. 179. **Ultra vires contracts by agents.** — We have already alluded to the familiar principle of law that a corporation cannot engage in any business, do any act, or enter into any contract not embraced within the scope of the powers conferred upon it. And it cannot, of course, confer upon its agents any authority or power which it does not itself possess. This doctrine rests upon the soundest principles; as otherwise acts might be done and obligations incurred, not only prejudicial to private rights, but inimical to the interests of the public. It follows, therefore, that contracts made by the agents of a corporation, that are beyond the powers of the corporation, and unauthorized by law, are usually null and void, in whosesoever hands they may be.[2]

[1] Mechanics' Bank v. Bank of Columbia, 5 Wheat. 326; Olcott v. Tioga R. Co., 27 N. Y. 559; Bank of Utica v. Magher, 18 Johns. 341; Northampton Bank v. Pepoon, 11 Mass. 288; Farmers' Bank v. Height, 3 Hill, 494; McWhorter v. Lewis, 4 Ala. 198; Cahill v. Kalamazoo Ins. Co., 2 Doug. (Mich.) 124; Merchants' Bank v. Central Bank, 1 Ga. 418; Ghent v. Adams, 2 id. 214; Mare v. Charles, 9 E. & B. 978; 34 Eng. L. & Eq. 138; DeWitt v. Walton, 9 N. Y. 571; Hicks v. Hinde, 9 Barb. 528; Babcock v. Beman, 11 N. Y. 200.

For a further consideration of personal liability of the agent in such cases, see *post*, § 210 *et seq.*

[2] Buffett v. Railroad Company, 40 N. Y. 168; Griggs v. Foote, 14 Allen, 195; Pearce v. Railroad Company, 21 How. 441; Miners' Ditch Company v. Zellerbach, 37 Cal. 543; Marsh v. Fulton County, 10 Wall. 676; Thomas v. Richmond, 12 id. 349; Bridgeport v. Housatonic Railroad Company, 15 Conn. 475; Martin v. Mayor, etc., 1 Hill, 545; Overseers v. Mayor, etc., 18 Johns. 382; Donovan v. New York, 33 N. Y. 291; Seibrecht v. New Orleans, 12 La. Ann. 496; Clark v. Des Moines, 19 Iowa. 199; Loker v. Brookline, 13 Pick. 343; Philadelphia v. Flanigen, 47 Penn. St. 21; Trustees v. Cherry, 8 Ohio St. 564; Hague v. Philadelphia, 48 Penn. St. 527; Albany v. Cunliff, 2 Comst. 165; Cuyler

But we shall hereafter consider the doctrine of *ultra vires* more fully in a chapter on contracts.[1]

Sec. 180. If, under the English corporation acts, the law of its constitution or the constating instruments confer upon boards of directors the authority of acting for the corporation, or of managing its affairs, they still have no authority beyond that conferred upon the corporation, nor can they bind the corporation by any contract beyond the powers conferred on the corporate body which they represent as agents.[2] And where the powers of making by-laws is in the corporate body, they may thereby limit the power of the directors; and the exercise of powers by them beyond the power thus conferred would also be *ultra vires*.[3]

Sec. 181. **Parties dealing with an agent must take notice of his real or apparent authority.** — It is a fundamental principle of the law of agency, that the principal is bound only by the authorized acts of his agent. But this authority may be shown not only by a written instrument conferring the authority, or by a verbal authority where that is sufficient, but by the acts of the principal in holding the agent out to the world as having authority to act in the particular matter.[4] Strangers, dealing with the agent of a corporation, are not bound to inquire what the corporation has in fact authorized him to do, but may deal with him in reference to those powers which it has held him out to the world as being possessed of. In other words, in reference to his apparent authority.[5] The

v Rochester, 12 Wend. 165; Hodges v. Buffalo, 2 Denio, 110; Vincent v. Nantucket, 12 Cush. 103; Stetson v. Kempton, 13 Mass. 272; Parsons v. Inhabitants of Goshen, 11 Pick. 396; Spaulding v. Lowell, 23 id. 71; Mitchell v. Rockland, 45 Me. 496; S. C., 41 id. 363; Commissioners v. Cox, 6 Ind. 403; Smead v. Railroad Company, 11 id. 104; Brady v. Mayor, 20 N. Y. 312; Appleby v. Mayor, etc., 15 How. Pr. 428; Estep v. Keokuk County, 18 Iowa, 199; Clark v. Polk County, 19 id. 248. And the defense *ultra vires* may be made though the corporate seal is attached. Leavenworth v. Rankin, 2 Kans. 358.

[1] See *post*, chap. 9.

[2] Fleckner v. United States Bank, 8 Wheat. 356; Ridgway v. Farmers' Bank, 12 S. & R. 265; Salem Bank v. Gloucester Bank, 17 Mass. 29; Bank of Kentucky v. Schuylkill Bank, 1 Parsons' Sel. Cas. 227.

[3] Id. See, also, Green's Brice's Ultra Vires, 607 *et seq.*

[4] Comstock, J., in Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 632; Farmers & Mechanics' Bank v. Butchers & Drovers' Bank, 16 id. 125.

[5] Salem Bank v. Gloucester Bank, 17 Mass. 1; Magill v. Kauffman, 4 S. & R. 318; City of Covington v. Covington, etc., Bridge Co., 10 Bush. 69.

same rules in this respect apply to corporations, as apply in the case of individuals, and a person who is clothed with authority to do an act for them at all is treated as being clothed with authority to bind them in respect to all matters within the scope of his real or apparent authority.[1] Thus where an agent had authority to sign contracts of shipment, and his name was signed to a particular contract as such agent of the clerk in his office, the execution of such contracts being a part of his duties, it was held that the defendants were bound thereby.[2] The maxim *facit per alium, facit per se*, applies with equal force to corporations, as to individuals, and the rule is not a doubtful one, either in policy or principle, that in transactions where one of two persons must sustain a loss, the loss must fall upon him who has made it possible for the other, innocently, to be placed in a position where loss might result to him except for the application of this rule. It would be disastrous to commercial, as well as other interests, if a person, by acting through the agency of another, could shield himself from liability for such person's acts, *ad libitum*. Fortunately, no such rule exists, and he who intrusts authority to another, in whatever department of business, is bound by all that is done by his agent within the scope of his apparent power, and cannot screen himself from the consequences thereof upon the ground that no authority in fact was given him to do the particular act, unless the act was clearly in excess of his apparent authority, or was done under such circumstances as put the person dealing with him, upon inquiry, as to the agent's real authority; and no exception to this rule exists in the law relating to corporations. It is always a question of fact whether the act was done under such circumstances that the person dealing with the agent had a right to believe that he was clothed with authority to do the particular act in question.

The rule may be said to be that, unless notice is given to third persons, or circumstances exist which should put them on inquiry, that in respect of certain matters within the scope of his apparent authority, certain limitations are imposed upon the agent, his acts within the scope of such authority shall be treated as the acts of

[1] Bodine v. Exchange F. Ins. Co., 51 N. Y. 117; Newell v. Smith, 49 Vt. 255; Rowley v. Empire Ins Co., 36 N. Y 550.

[2] Newell v. Smith, *ante*.

his principal, and not the acts of the person with whom he deals as the representative of the principal, even though the policy declares him the agent of the assured.[1] The question is not what the powers of the agent in fact were, but what power did the company hold him out as possessing.[2] From the business with which the agent was intrusted, had the person dealing with him a right to understand that he had authority to do the particular act, in reference to which the principal denies his authority?[3]

But the general doctrine in reference to corporate agents, whether general or special, has been held to be that parties dealing with them must take notice of such authority as is conferred upon them by the charter, organic act, articles of association or other constating instruments, and perhaps the by-laws adopted by the corporate body, in accordance with the organic or fundamental laws of its constitution, for such laws are supposed to be public; and all parties dealing with corporate agents are presumed to have notice of the same.[4] In a recent case where this question was involved, Daniels, J., said: "The president is, at most, the agent of the company, created under a special legislative act defining the rights and privileges of the body, and the manner in which they should be enjoyed. This the plaintiff is to be regarded as knowing. For all persons dealing with the officers or agents of corporations are bound to know that they act either under its charter or by-laws, or the usages which may be shown to exist defining the extent of their authority. They must, in doubtful cases, acquaint themselves with the extent of that authority, or otherwise submit to the consequences resulting from their omission to do that."[5] In support of this doctrine it is claimed that all persons may acquaint themselves with the general status of incorporation, and with the articles of

[1] Wood's Law of Fire Insurance, 644; Commercial Insurance Co. v. Ives, 56 Ill. 402; Columbia Ins. Co. v. Cooper, 50 Penn. St. 331; Union Mut. Ins. Co. v. Wilkinson, 13 Wall. 222.

[2] Eclectic Life Ins. Co. v. Fahrenkrug, 68 Ill. 463.

[3] Ætna Ins. Co. v. Maguire, 51 Ill. 342; Washington F. Ins. Co. v. Davidson, 30 Md. 91; Home Life Ins. Co. v. Pierce, 5 Ins. L. J. 290 (Ill.); Farmers', etc., Ins. Co. v. Cheshunt, 50 Ill. 111; Franklin F. Ins. Co. v. Murray, 73 Penn. St. 13.

[4] Adriance v. Roome, 52 Barb. 399; Wild v. Bank of Passamaquoddy, 3 Mas. (U. S. C. C.) 505; State v. Commercial Bank, 6 S. & M. 218.

[5] Risley v. Ind., etc., R. Co., 1 Hun, 202. See, also, North River Bank v. Aymar, 3 Hill, 262; Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 599; McCullough v. Moss, 5 Denio, 567; Adriance v. Roome, 52 Barb. 399; Dabney v. Stevens, 40 How. Pr. 341; Salem Bank v. Gloucester, 17 Mass. 1; Lowell Savings Bank v. Winchester, 8 Allen, 109.

association, or other instruments by which parties may associate and become incorporated under general statutes; that if they fail to acquaint themselves with them, and the authority of the corporate agents provided for by such acts, articles or constating instruments, it is their own fault; and if they give credit to any person not thereby authorized to act in reference to the particular matter, they must be content to look to the agent only, and cannot look to the company whom they represent.[1] Even a stranger who deals with a corporate agent is bound to take notice of such limitations of this authority as are contained in the organic or constating laws or instruments of the body corporate.

SEC. 182. **Delegation of authority by agents.** — In the extended and frequently complicated character of the business of many of our various modern corporations for pecuniary gain, it must almost necessarily follow that authority is conferred upon various officers and agents, expressly or impliedly, to employ other agents and sub-agents. The objects of corporations would seldom be attained unless this power existed; and in a majority of cases it rests upon implication from the powers conferred on a class of agents, or a particular agent of large powers and authority. We have already briefly alluded to this subject in treating of directors.[2] But a further consideration of it seems to be proper in this connection. It may be said that the power to delegate authority may be expressly provided for in the original appointment of the agent;[3] but in the various and complicated affairs of moneyed corporations this seldom occurs, and the right is usually, perhaps, left to be inferred from the nature and character of the agency.

Mr. Story, after affirming the general doctrine alluded to, observes: "But there are cases in which the authority may be implied, as when it is indispensable by the laws, in order to accomplish the end; or it is the ordinary custom of trade; or it is understood by the parties to be the mode in which the particular business would or might be done.[4] Thus, if a person should order

[1] Earnest v. Nicholls, 6 H. L. 419; Smith v. Hull Glass Co., 11 C. B. 926.

[2] See *ante*, chap. 6.

[3] 1 Liv. on Agency, 54 *et seq.;* Commercial Bank v. Norton, 1 Hill, 505.

[4] Coles v. Trecoothick, 9 Ves. 234 *et seq.;* 1 Bell's Com. 387 *et seq.;* Shipley v. Kymer, 1 M. & S. 484; Cockran v. Irlam, 2 M. & S. 301; Laussatt v. Lippincott, 6 S. & R. 386; Johnson v. Cunningham, 1 Ala. (N. S.) 249.

his goods to be sold by an agent at public auction, and the sale could only be made by a licensed auctioneer, the authority to substitute him in the agency, so far as the sale is concerned, would be implied.[1] So where, by the custom of trade, a ship broker, or other agent, is usually employed to procure a freight or charter-party for ships, seeking a freight, the master of such a ship, who is authorized to let the ship on freight, will incidentally have the authority to employ a broker, or agent for the owner, for this purpose. And the same principle will apply to a factor, where he is, by the usage of trade, authorized to delegate to another the authority to substitute another person to dispose of the property.[2] In short, the true doctrine, which is to be deduced from the decisions, is (and it is entirely coincident with the dictates of natural justice), that the authority is exclusively personal, unless from the language used, or from the fair presumptions growing out of the particular transaction, or of the usage of trade, a broader power was intended to be conferred on the agent." [3]

Sec. 183. **Same continued.**—This doctrine of implied authority, from the nature and character of the agency, is peculiarly applicable to corporate agents. For, as corporations can only act by and through agents, it frequently occurs that some one must be appointed a general agent, by the corporate body or by the directors, to superintend a variety of matters, such as the superintendents of various matters connected with the operations of railroads and other corporations. And such appointment necessarily contemplates the appointment of sub-agents. It necessarily follows in such cases, that they have implied authority to appoint sub-agents for various purposes, and to remove the same at their will, and these sub-agents may in turn be authorized by express authority, or the requirements of the employment or business, to employ other agents. The appointment in all these cases, if not directly authorized by the corporate body or board of directors,

[1] Laussatt v. Lippincott, 6 S. & R. 386.

[2] Cockran v. Irlam, 2 M. & S. 301; Goswill v. Dankley, 1 Str. 680; Bromley v. Coxwell, 2 B. & P. 438; Gray v. Murray, 3 Johns. Ch. 167; Story on Agency, § 110.

[3] Story on Agency, § 14. See, also, 1 Bell's Com. 388, 482; Ersk. Inst., B. 3, tit. 3, § 34; 2 Kent's Com. 633 (4th ed.); 1 Domat, B. 1, tit. 16, § 3 of art. 2, 3; Cockran v. Irlam, 2 M. & S. 301; Catlin v. Bell, 4 Camp. 183.

nor clearly to be inferred from the nature and character of the duties, business, or objects of the corporation, is at least generally ratified by the acts and conduct of the principal, in some manner, so as to make the appointment equally as valid for all purposes as though the authority originally emanated from the principal. We have already considered the implied authority of an agent, and the subject of ratification by the principal, in discussing the subject of directors.

SEC. 184. **Powers expressly conferred by law.**—We have already alluded to the powers expressly conferred upon officers and agents by statute or by the fundamental law. In such cases they may exercise these powers unrestrained by the will of even the corporate body. The doctrine of authority to act within the scope of the authority is here as applicable as where the appointment comes from the corporate body or other appointing power. But we have noticed the general principles applicable in such cases, as well as the doctrine of implied powers, and a further consideration of them in this connection is thereby rendered unnecessary.

But no authority can be conferred in excess of that possessed by the corporate body, as such authority would be *ultra vires*, and any contract made by them in excess of such powers would be *ultra vires* and void.

SEC. 185. **Ratification of acts of agents.**—The doctrine of ratification as applied to agency is that whereby the principal with full knowledge of the agent's acts, doings or omissions, approves and indorses the same, whereby he becomes bound by them, as though express authority had been originally conferred upon such agent in relation to the matters.[1] The general maxim is: *Omnis ratihabitio retrotrahitur, et mandato, priori, equiparatur.* Thus, if a contract is made by an agent acting for his principal, but without authority, but is subsequently ratified by the principal, this renders it valid so as to confer upon the other contracting party the same rights and remedies as if the authority therefor had originally been conferred upon the agent.[2] This ratification may be

[1] Story on Agency, §§ 239, 445.

[2] Smith's Merc. L. 60; id. 108 (2d ed.); Story on Agency, § 445; Cook v. Tullis, 18 Wall. 332; Wood v. McCain, 7 Ala. 806; Taylor v. Robinson, 14 Cal. 396; McCracken v. San Francisco, 16 id. 591.

made in various ways. It is not essential that there be a positive and direct adoption of the acts, but such ratification may be inferred from the acts of the principal, and from the facts and circumstances of the case. If there is an express ratification or assent to an unauthorized act of an agent, there is no question of the application of the doctrine, and a contract made by such unauthorized agent thus ratified becomes obligatory on the part of the corporation as well as the other party.[1] But in most cases of this character the ratification becomes a matter of inference or implication from the acts and conduct of the principal.[2] And slight circumstances will sometimes be sufficient to warrant the conclusion of a ratification by the principal.[3] Thus, if the principal, when informed of a purchase by his agent in the name of the principal, merely complains of the manner in which the authority has been exercised, but does not deny the authority;[4] or if an agent exceeds his authority in the purchase of goods, but the principal, with knowledge of the facts, receives the goods as his own without objection;[5] or if an agent sells goods contrary to his instructions, but the principal afterward receives the proceeds with knowledge of the facts; and generally, where the principal receives the fruits of what has been acquired by the wrongful act of an agent, and does not restore it on being informed of the facts,[6]

[1] Wilson v. Tumman, 6 M. & G. 236; Blood v. Goodrich, 9 Wend. 68; S. C., 12 id. 565; Harford v. M'Nair, 9 id. 57; Chitty on Com. and Man. 179; 1 Liv. on Agency, 45; Story on Agency, § 252.

[2] Terril v. Flower, 6 Mart. (La.) 584; Loraine v. Cartwright, 3 Wash. (C. C.) 151; Story on Agency, § 253.

[3] Paley on Agency, by Lloyd, 171; Conn. v. Penn., 1 Peters (C. C.), 496; Richmond Man. Co. v. Starks, 4 Mason, 296; Bank of Columbia v. Patterson, 7 Cranch, 299; Rogers v. Kneeland, 13 Wend. 114.

[4] Johnson v. Jones, 4 Barb. 369.

[5] Odiorne v. Maxcy, 13 Mass. 178; Clark v. Van Reimsdyk, 9 Cranch, 153.

[6] Willinks v. Hollingsworth, 6 Wheat. 241; Forrestier v. Bordman, 1 Story, 43; Palmerton v. Huxford, 4 Denio, 166. See, also, Fenn v. Harrison, 4 T. R. 177; Long v. Colburn, 11 Mass. 98. The rule is that, when an agent does an act for the use of his principal and the principal enjoys the benefits and fruit of the act, he is estopped from afterward saying that the act is illegal. Law v. Conn. R. R. Co., 46 N. H. 284; Ruggles v. Washington County, 3 Mo. 496; Reid v. Hibbard, 6 Wis. 175; Farmers', etc., Bank v. Sherman, 6 Bosw. 181; Narragansett Bank v. Atlantic Co., 3 Metc. (Mass.) 282, as where a person brings a suit based on the acts of a party claiming to have acted as his agent, the bringing of such action is a ratification of the authority of the agent. Dodge v. Lambert, 2 Bosw. 570; S. P., Hampshire v. Franklin, 16 Mass. 76; Sutton v. Cole, 3 Pick. (Mass.) 232; Folger v. Mitchell, id. 396; Bank of Augusta v. Conrey, 28 Miss. 667; Walker v Mobile, etc., R. R. Co., 34 id. 245; Ham v. Boody, 20 N. H. 411; Corser v. Paul, 41 id. 24; Bank of Be-

in these and similar cases the conduct of the principal would be considered as an indorsement and ratification of the agent's acts. It would be the duty of the principal in such cases to restore the fruit of the unauthorized contract, as soon at least as the facts came to his knowledge, and as far as possible place the other party in *statu quo*, otherwise he would be held liable on the contract.

SEC. 186. **The doctrine of ratification applicable to corporations.**— This doctrine is peculiarly applicable to corporations for pecuniary profit, and serves a valuable purpose in securing the ends of justice. We have already seen that the authority of agents of corporations may exist by the fundamental law of the institution, by the action of the corporate body or board of directors, by implication from the acts of the corporation, or be inferred from the office of the agent who assumes to act. In the case of private joint-stock corporations for pecuniary profit they usually require many agents and sub-agents. The appointment of these agents may be inferred, not only where there is no appointment under the corporate seal, but even where there is no actual record of their appointment. These, in their turn, may be authorized to appoint sub-agents, to make contracts in the name of the corporation. Proof of the authority to act may be difficult or impossible, except as it may be inferred from the acts of the body. If a sub-agent is employed, and his acts are recognized by the company, or if they receive the benefit of his contracts, knowing the facts, this, as we have seen, would be a ratification of the agency; and if it takes the benefit of a contract made by such an agent, it must take the same as made, with its disadvantages as well as ben-

loit v. Beale, 34 N. Y. 473; Franklin v. Ezell, 1 Sneed (Tenn.), 497. Where a sale is made of land, no one will be permitted to receive both the money and the land; and hence where one receives the proceeds of the sale of land, this is an affirmation that his title has passed to the purchaser, by virtue of the sale. Warden v. Eichbaum, 3 Grant's Cas. 42. But the ratification of the acts of an unauthorized agent will not bind the principal, unless at the time of ratification he was fully aware of all the circumstances. Owings v. Hall, 9 Pet. 607; Hardeman v. Ford, 12 Ga. 205; Mapp v. Phillips, 32 id. 72; Mathews v. Hamilton, 23 Ill. 470; Tidrick v. Rice, 13 Iowa, 214; Dodge v. McDonnell, 14 Wis. 553; Fletcher v. Dysart, 9 B. Monr. (Ky.) 413; Dickinson v. Conway, 12 Allen (Mass.), 487; Coombs v. Scott, id. 493; Woodbury v. Larned, 5 Minn. 339; Humphreys v. Havens, 12 id. 298; Seymour v. Wyckoff, 10 N. Y. (6 Seld.) 213; Brass v. Worth, 40 Barb. 648; Roach v. Coe, 1 E. D. Smith, 175; Pittsburgh, etc., R. R Co. v. Gazzam, 32 Penn. St. 340.

efits to them, and they could not, under such circumstances, claim any benefit from portions of it in their favor, and reject it as to those matters imposing obligations upon it. It must accept the contract *in toto*, or not at all.[1]

Sec. 187. **Same continued.** — The general doctrine we have referred to is illustrated by a recent case, where the directors of a railroad company allowed its president to purchase locomotives and to operate the road with them, and generally to manage the affairs of the corporation in his discretion and without interference, but afterward resumed the management of the road themselves. This was held a sufficient ratification of the president's acts as to furnish evidence of the president's original authority to bind the corporation for the payment of bills issued by the president in payment of the locomotives.[2] And it is a generally recognized principle of the law of agency that where the principal neglects promptly to disavow the act of agency in case the agent

[1] See Moss v. Averell, 10 N. Y. 449; Church v. Sterling, 16 Conn. 388; Chicago Building Soc. v. Crowell, 65 Ill. 453. In Mayor v. Ray, 19 Wall. 468, Hunt, J., said: "It is a general rule applicable to all persons and corporations, and is a dictate of plain honesty, that whoever, knowing the facts of the case, retains and uses money received by an agent for his account, cannot repudiate the contract on which it is received." See, also, Story on Agency, § 239 *et seq.*; 1 Lind. on Part. (3d ed.) 273, 805; Downing v. Mt. Washington R. Co., 40 N. H. 230. In Allegheny City v. McClurkan, 14 Penn. St. 81, Coulter, J., observes: "I take it for granted that it (the charter of the corporation) contains no express authority to the corporation to issue such notes as those embraced in this action. But it does not follow that the corporators are therefore not answerable for them in their corporate capacity. They have received value for them in their various public works and improvements erected and made in the city through their instrumentality, and it hardly comports well with fair dealing that they should seek to exonerate themselves from a debt on this account, contracted by and through their accredited agents and with their silent acquiescence."

[2] Olcott v. Tioga R. Co., 27 N. Y. 546. See, also, Cushman v. Loker, 2 Mass. 106; Episcopal Charity Soc. v. Episcopal Church, 1 Pick. 372. And long acquiescence will amount to a presumption where it cannot otherwise be accounted for. Courcier v. Ritter, 4 Wash. (C. C.) 549; Erick v. Johnson, 6 Mass. 193; Amory v. Hamilton, 17 id. 103; Towle v. Stevenson, 1 Johns. Cas. 110; Pitts v. Shubert, 11 La. 288; Kingston v. Kincaid, 1 Wash. (C. C.) 455.

If the agency actually exists the acquiescence may well raise the presumption of a ratification. Courcier v. Ritter, 4 Wash. (C. C.) 549; Amory v. Hamilton, 17 Mass. 103; Erick v. Johnson, 6 id. 193; Fitzsimmons v. Joslin, 21 Vt. 129; Johnson v. Jones, 4 Barb. 369; Pickett v. Pearsons, 17 Vt. 470; Salem Bank v. Gloucester, 17 Mass. 1; Payson v. Stoever, 2 Dill. 427.

But where a director sells land to himself, a majority of a corporation cannot ratify the transaction so as to bind a minority. Cumberland Coal Co. v. Sherman, 30 Barb. 553. See, also, Martin v. Zellerbach, 38 Cal. 300.

has transcended his authority, he makes it his own act, and this doctrine is as applicable to corporations as to natural persons.[1]

So it has been held that where the president of a railroad openly establishes and advertises tariffs for fare and freight on the road, and the company receives and appropriates the tolls thus received without objection, this amounts to a ratification.[2]

SEC. 188. **Personal liability of agents.**— It may be affirmed as a well-settled proposition of law, that persons, acting on behalf of others, must act, and give the parties with whom they are dealing to understand that they are acting as agents for another, or they will be liable as principals.[3] This rule is also as applicable to corporations as to private persons.[4] In regard to all written contracts made by agents of corporations, unless the contract in form binds the corporation, there is a personal liability of the agent.[5] "The difficulty is not in ascertaining the general principles which must govern cases of this nature, but in applying them to the different forms and shades of expression in particular instruments. In order to exempt an agent from liability upon an instrument executed by him within the scope of the agency, he must not only name his principal, but he must express by some form of words that the writing is the act of the principal, though done by the hand of the agent. If he does this the principal is bound and the agent is not."[6]

[1] Kelsey v. National Bank, 69 Penn. St. 426; Bredin v. Dubarry, 14 S. & R. 30; Gordon v. Preston, 1 Watts, 387.

[2] Hilliard v .Goold, 34 N. H. 230; Pennsylvania, etc., R. Co. v. Dandridge, 8 G. & J. 248.

But a principal cannot ratify acts which do not come within the powers possessed by the corporation.

[3] Thompson v. Davenport, 2 Smith's Leading Cases (7th Am. ed.), 358; Story on Agency, § 266; Green's Brice's Ultra Vires, 630.

[4] Paice v. Walker, L. R., 5 Ex. 173; Kay v. Johnson, 2 H. & M. 118; Barker v. Allen, 5 H. & N. 61; 29 L. J. Ex. 100; Haddon v. Ayers, 1 E. & E. 118; Hallett v. Dowdall, 18 Q. B. 2; 21 L. J. Q. B. 98; Story on Agency, § 147.

[5] Seaver v. Coburn, 10 Cush. 324; Pumpelly v. Phelps, 40 N. Y. 59; Lee v. M. E. Church, 52 Barb. 116; Dean v. Roesler, 1 Hilt. 420.

[6] See GRAY, J., in Tucker Manuf. Co. v. Fairbanks, 98 Mass. 101. See, also, Dutton v. Marsh, L. R., 6 Q. B. 361; Lindus v. Melrose, 3 H. & N. 177; 27 L. J. Ex. 336; Alexander v. Sizer, L. R., 4 Ex. 102; Carpenter v. Farnsworth, 106 Mass. 561; Nichols v. Frothingham, 45 Me. 220; Nicholas v. Oliver, 36 N. H. 218; Slawson v. Loring, 5 Allen, 340; Draper v. Massachusetts, etc., Co., id. 338; Sharpe v. Bellis, 61 Penn. St. 69; Means v. Swormstedt, 32 Ind. 87. But in Sherman v. N. Y. Cent. R. Co., 22 Barb. 239, the contract was so drawn as to bind neither the principal nor agent.

Sec. 189. **Forms of executing power by agents.**— It is difficult to furnish any general rule as to what is requisite in the form of an instrument to bind the principal and when for the want of sufficient form and substance in the contract to bind the principal the agent is personally liable. But in such cases the general rule is, that if the principal is bound, the agent is not, and if the agent is bound, the principal is not.[1] Where the name of the principal appears in the body of the instrument, and to the signature of the party acting there is annexed the word "agent," this would be clearly the instrument of the principal, and bind him, and not the agent. And it has been held that even the name of the corporation printed upon the margin of the instrument, though it did not appear in the body of the same, was sufficient.[2] So, it was held where a note was made payable to one as an officer, as for instance, to "A. B., treasurer," and he indorsed it in the same way, this created no personal liability.[3] So, it is held that a bill drawn to "A. B., cashier," is a bill payable to the bank of which he is cashier, and that an indorsement in the same form is an official indorsement, and does not make him personally liable. In such a case in New York, Wright, J., observes: "Had there been nothing in the case to connect the bill with the defendant's bank, the cashier would have been regarded as the payee and indorser individually, and the abbreviation affixed to his name would have been regarded as *descriptio personæ;* but when his official position is shown, connected with the fact that the bill was the property of the bank, and in the regular course of business was transmitted to its agent for collection, it is then shown that the indorsement is an official one."[4]

[1] Abbey v. Chase, 6 Cush. 54; Ellis v. Pulsifer, 4 Allen, 165.

[2] Fuller v. Hooper, 3 Gray, 334; Slawson v. Loring, 5 Allen, 340; Mott v. Hicks, 1 Cow. 514; Carpenter v. Farnsworth, 106 Mass. 561.

[3] Babcock v. Beman, 1 E. D. Smith, 597; S. C., 11 N. Y. 200. See, also, as to the distinction made between an agent as indorser and acceptor, Babcock v. Beman, *supra;* Bruce v. Lord, 1 Hilt. 247.

[4] Bank of New York v. Bank of Ohio, 29 N. Y. 619. See as to the admissibility of parol evidence to show the liability of the bank in such cases, Olcott v. Tioga, etc., R. Co., 27 N. Y. 546; Conro v. Port Henry Iron Co., 12 Barb. 27; Elwell v. Dodge, 33 id. 330; Thompson v. Tioga, etc., R. Co., 36 id. 79; Merchants' Bank v. McCall, 6 Bosw. 473; Mott v. Hicks, 1 Cow. 514; Brockway v. Allen, 17 Wend. 40; Bruce v. Lord, 1 Hilt. 247. But see, also, Bank of New York v. Farmers' Bank, 36 Barb. 332, where it was held that an indorsement of a note by the cashier did not render the bank liable as indorsee.

SEC. 190. **When agent personally bound.** — But on the other hand, where the name of the principal is not named in the body of the instrument, but it runs in the name of the agent, and is merely signed by him, with the addition "agent," or "agent for The Churchman," or the like addition, this addition will usually be treated as merely *descriptio personæ*, and surplusage, and the agent held as personally liable.[1] So, a bill of exchange drawn on an insurance company by their agents, in which they say, "charge the same to account of David Fairbanks & Co., Ag'ts, Piscataqua F. & M. Ins.," binds F. & Co. personally as drawers, although delivered by the agents of the Piscataqua Fire and Marine Insurance Company, in payment of a loss on one of its policies.[2] So, in England it was held that where four directors of a joint-stock company signed their names to a promissory note, as follows: "We, the directors of the Isle of Man Slate Company, do promise to pay," etc., and on one corner of the note was the company's seal; still it was held that the directors were personally liable as makers of the note.[3]

SEC. 191. **When there is no principal.** — In case a person assumes to act as agent for a person as principal, when there is in fact no such person in existence, the person thus assuming to be principal would clearly be personally liable, as he would be held to have acted on his own behalf, although by the form of the instrument he professes to act as agent.[4] Mr. Story observes, that "persons contracting as agents are nevertheless ordinarily, although, as we shall presently see, not universally held personally responsible, where there is no other responsible principal to whom resort can be had."[5] And in England it is held that if the 'promoters' of a corporation make on behalf of the future corporation an absolute contract, and not merely one that is conditional on the future completion of the organization, they will not be relieved from

[1] Stackpole v. Arnold, 11 Mass. 27; Slawson v. Loring, 5 Allen, 340; Moss v. Livingston, 4 N. Y. 208; De Witt v. Walton, 9 id. 571; McClure v. Bennett, 1 Blackf. 189; Titus v. Kyle, 10 Ohio St. 444.

[2] Tucker Man. Co. v. Fairbanks, 98 Mass. 101.

[3] Dutton v. Marsh, L. R., 6 Q. B. 361.

[4] Kelner v. Baxter, L. R., 2 C. P. 174; Story on Agency, §§ 287, 290, 274; Paley on Agency, by Lloyd, 374; 2 Kent's Com. 630.

[5] Story on Agency, § 280.

personal liability, even though the corporation when organized adopts the contract.[1]

But this doctrine does not apply where the agent had authority to act for his principal, and where the agent acts in entire good faith, but without the knowledge of either party, who have equal means of ascertaining the fact, the principal has died.[2] In such a case, as either party has equal means of ascertaining the fact, they are supposed to contract with reference to that contingency, and the agent does not thereby become personally liable.

Sec. 192. **Liability of the agent in case of misrepresentation of his authority.** — In case of the misrepresentation by the agent of his authority, which he assumes to exercise, by which he secures the execution of a contract between the corporation which he assumes to represent and another party, and said contract is *ultra vires*, or for any cause not enforceable against said corporation, and the party with whom it is made is not aware of the limitations of the agent's authority, such agent will be individually liable on such contract. And this doctrine has, in England, been held to apply, however innocent the agent, provided the principal fails to ratify it.[3] He may also be held personally liable on the ground of fraud and misrepresentation, or of implied warranty. The doctrine of the supreme court of New York on this question is thus stated: "Whenever a person enters into a contract as the agent of another, he warrants his own authority, unless very special circumstances or express agreement relieve him from that responsibility. An action upon such warranty must always be appropriate where personal liability attaches to an agent, in consequence of his contracting without authority. * * * If the act of the agent were fraudulent, an action for the deceit would lie, but it would be a concurrent remedy with the action on the contract itself, if the cases which sustain such action can be regarded as correctly decided."[4]

[1] Kelner v. Baxter, L. R., 2 C. P. 174. See, also, Doubleday v. Muskett, 7 Bing. 110.

[2] Story on Agency, § 265a, and note; Smout v. Ilbery, 10 M. & W. 1.

[3] Collen v. Wright, 8 E. & B. 647; 27 L. J. Q. B. 215; Wilson v. Miers, 10 C. B. (N. S.) 348; Slim v. Croucher, 1 DeG. F. & J. 518; Edmunds v. Bushnell, L. R., 1 Q. B. 97.

[4] White v. Madison, 26 N. Y. 117. See, also, Dung v. Parker, 52 id. 494; Baltzen v. Nicolay, 53 id. 467

Where one acts as agent for another, through his culpable ignorance, though in fact supposing that he has authority, he is still liable, as for a deceit.[1] Mr. Justice SHAW, on this subject, thus expresses his views: "If one falsely represents that he has authority, by which another relying on the representation is misled, he is liable; and by acting as agent for another, when he is not, though he thinks he is, he tacitly and impliedly represents himself authorized, without knowing the fact to be true, it is in the nature of a false warranty and he is liable. But in both cases the liability is founded on the ground of deceit, and the remedy is by the action of tort."[2] If the agent believes he has authority, when he has none, but affirms that he has, when in fact he has not such authority, and thereby induces another to enter into a contract with the agent, on behalf of the principal, it is perhaps entirely just that he should be responsible to the party with whom he deals, for the consequences of his mistake, and that he should rather suffer than the other party, on the principle that where two innocent parties must suffer a loss, the party ought to bear it who was the immediate and active cause of it.[3] "There is no doubt," observes Baron ALDERSON, "that in the case of a fraudulent misrepresentation of his authority, with an intent to deceive, the agent would be personally responsible. But

[1] Noyes v. Loring, 55 Me. 408; McCurdy v. Rogers, 21 Wis. 197; Bartlett v. Tucker, 104 Mass. 336; Ogden v. Raymond, 22 Conn. 379; Taylor v. Shelton, 30 id. 123; Duncan v. Niles, 32 Ill. 532; Walker v. Bank of New York, 9 N. Y. 582; Ballou v. Talbot, 16 Mass. 461; Abbey v. Chase, 6 Cush. 54; Draper v. Massachusetts Steam Heating Co., 5 Allen, 338.

[2] Jefts v. York, 10 Cush. 392; Hegeman v. Johnson, 35 Barb. 200. See, also, M. & W. 1; Jenkins v. Hutchinson, 13 Ad. & El. (N. S.) 744.

In reference to the form of the action in such cases, there seems to be some diversity of opinion. In England it has been held that it should be by special action on the case. This doctrine has also been maintained in Massachusetts. Long v. Colburn, 11 Mass. 97; Ballou v. Talbot, 16 id. 461. See, also, in Pennsylvania, in Hopkins v. Mehaffy, 11 S. & R. 129.

On the other hand it has been held in New York, that an action may be maintained upon the instrument thus executed by the agent, as though it were his personal contract. Dusenbury v. Ellis, 3 Johns. Cas. 70; White v. Skinner, 13 Johns. 307; Meech v. Smith, 7 Wend. 315; Cunningham v. Soules, id. 106; Stetson v. Patten, 2 Ga. 358; 2 Kent's Com. 631; Clay v. Oakley, 5 Mart. (La.) 138; Perkins v. Washington Ins. Co., 4 Cow. 469; Feeter v. Heath, 11 Wend. 477; White v. Skinner, 13 Johns. 307; Lazarus v. Shearer, 2 Ala. (N. S.) 718; Hampton v. Speckenagle, 9 S. & R. 212. Where it was held that an agent in purchasing goods exceeded his authority, he might be treated as the purchaser.

[3] Smout v. Ilbery, 10 M. & W. 1; Baring v. Corrie, 2 B. & A. 143; Paley on Agency, by Lloyd, 201; Story on Agency, §§ 56, 264, and notes.

independently of this, which is perfectly free from doubt, there seems to be still two other classes of cases in which an agent, who, without authority, makes a contract in the name of his principal is personally liable, even where no proof of such fraudulent intention can be given. First, where he has no authority, and knows it, but nevertheless makes the contract, as having such authority. In that case on the plainest principles of justice he is liable, for he induces the other party to enter into the contract on what amounts to a misrepresentation of a fact peculiarly within his own knowledge; and it is but just that he who does so should be considered as holding himself out as one having competent authority to contract and as guaranteeing the consequences arising from any want of such authority. But there is a third class in which the courts have held that, where a party making the contract as agent, *bona fide* believes that such authority is vested in him, but he has in fact no such authority, he is still personally liable."[1] But an agent, it is held, cannot be liable, either in contract or tort, for falsely misrepresenting his authority, to make contracts on behalf of another, where the principal would not be bound by the contract entered into, on the ground that it is void by the statute of frauds.[2]

Sec. 193. **Matters of which parties dealing with agents are bound to take notice.**—An agent will not be personally liable, where he exceeds his authority, if the person knew or had equal means of knowing that he was exceeding his authority. Where the authority of the officers or agents who assume to act for a corporation is provided for by statute, or the acts under which it is organized, or by the fundamental law, or by the constating instruments of the corporation, all persons dealing with such officers or agents, as we have before observed, are bound to take notice of such provisions.

[1] Smout v. Ilbery, 10 M. & W. 1. In this case the decision turned upon another question. A man, who was in the habit of purchasing meal of the plaintiff for his house, went abroad leaving his wife and family resident in England, and died abroad. Meal was supplied after the death of the husband, which was unknown to both the wife and the plaintiff. Suit was brought against the wife for the meal thus furnished. It was held that the wife was not liable. See, also, Blades v. Free, 9 B. & C. 167; Story on Agency, §§ 265, 265a; Hegeman v. Johnson, 35 Barb. 200.

[2] Dung v. Parker, 52 N. Y. 494; Baltzen v. Nicolay, 53 id. 467.

They have the means of knowing, and are supposed to know the extent of the power of such agents, and having at least constructive notice of the same, cannot consistently claim that they were deceived by any implied representations, or even by the express warranty of the agent with whom they deal, of the power of the corporation as it would be shown by such provisions; and hence he could not hold the agent personally liable in such cases.[1]

SEC. 194. All parties dealing with corporate agents are bound to take notice of acts of the agent that are *ultra vires;* for the powers of the agent cannot exceed those of the principal; and the powers of the corporation, as we have seen, are matters of public knowledge, or capable of ascertainment.[2] So an undertaking on the part of an agent for a corporation, that some act shall be done which is contrary to the public law, or against public policy, would be void, and of this the contracting parties would be required to take notice; and in such cases there could be no recovery against the agent.[3] For, as no contract prohibited by the charter or the general laws of the State, can be made by a corporation, it is evident that the agent could not make such a contract. And of this prohibition parties dealing with agents would be required to take notice.[4]

SEC. 195. **Liability of agents for violation of duties.** — It is a general doctrine of the common law that agents are personally liable to their principal for all violation of their duty and obligations to their principals. These violations may consist either of positive

[1] Ellis v. Coleman, 25 Beav. 662; 27 L. J. Ch. 611; Macgregor v. Dover, etc., R. Co., 18 Q. B. 618; 22 L. J. Q. B. 69; Kerr on Frauds (Am. ed.), 90; Pitcher v. Hennessy, 48 N Y. 415; Benj. on Sales (Am. ed.), § 414 *et seq.* And if the agent may be excused from liability in certain cases where the facts relating to the agency are known or may be presumed to be known by both parties, it is evident that the rule would apply with even greater force where the agent has been induced to act on his supposed agency, on the representations of the party with whom he is dealing. Aspinwall v. Torrance, 1 Lans. 381.

[2] Green's Brice's Ultra Vires, 639 *et seq.*

[3] Macgregor v. Deal R. Co., 18 Q. B. 618; 22 L. J. Q. B. 69; Mayor, etc., v. Norfolk R. Co., 4 E. & B. 397; Green's Brice's Ultra Vires, 231.

[4] Thomas v. Richmond, 12 Wall. 349; Marsh v. Fulton, 10 id. 676; Leavenworth v. Rankin, 2 Kans. 357; Horn v. Baltimore, 30 Md. 218; Bridgeport v. Railroad Co., 15 Conn. 475; Haynes v. Covington, 13 S. & M. 408; Taft v. Pittsford, 28 Vt. 286; Branham v. San Jose, 24 Cal. 602; Wallace v. San Jose, 29 id. 180; State v. Kirkley, 29 Md. 85; State v. Haskell, 20 Iowa, 276.

misconduct or of acts of negligence or omissions of their duty. And in such cases the suit must generally be brought in the name of the corporation and not in the name of a stockholder; as he is the agent of the corporation and not of the individual corporators, and the injury thereby sustained must be considered an injury to the corporate body, of which he is agent.[1]

Sec. 196. **Compensation of officers and agents.** — The compensation of officers is usually fixed by the provisions of the by-laws; but in the absence of such provisions or any express contract, they may generally recover so much as their services are reasonably worth.[2] Or compensation may depend upon usage or custom.[3] Where, however, there is not only no compensation provided for officers, but all allowance for compensation of them is prohibited by the organic or by-laws of the corporation, no compensation can be allowed. It is common, perhaps, to make no provision for the compensation of directors as such, and it has been held that they, in such cases, could not recover for such services.[4] The right of directors and perhaps some other officers of private corporations, to recover on a *quantum meruit*, has been questioned; and in Pennsylvania and some other states it has been held that there must be an express contract for compensation of its officers, or they cannot recover;[5] and this is the universal rule in relation to officers of municipal corporations.[6]

[1] Smith v. Poor, 40 Me. 415; Hersey v. Veazie, 24 id. 12; Hodges v. New Eng. Screw Co., 1 R. I. 312; Smith v. Hurd, 12 Metc. (Mass.) 371; Abbott v. Merriam, 8 Cush. (Mass.) 588; Bayless v. Orne, 1 Freem. (Miss.) Ch. 175; Austin v. Daniels, 4 Den. 301; Brown v. Vandyke, 8 N. J. Eq. 795; Denny v. Manhattan Co., 2 Den. 115; S. C., 5 id. 639; Franklin Ins. Co. v. Jenkins, 3 Wend. 130; Lexington R. Co. v. Bidges, 7 B. Monr. (Ky.) 559; Salem v. Richardson, 30 Conn. 360; Calhoun v. Richardson, id. 229; Richardson v. Williamson, L. R., 6 Q. B. 276; Weeks v. Propert, L. R., 8 C. P. 427; Mabey v. Austin, L. R., 3 Q. B. 299; Peck v. Gurney, L. R., H. L. 377. But see chapters 6 and 14 where cases will be found showing personal liability of agents and the right of stockholders to sue them in certain cases.

[2] Commonwealth Ins. Co. v. Crane, 6 Metc. (Mass.) 64; Waller v. Bank of Kentucky, 3 J. J. Marsh. 206; Elwes v. Ogle, 2 Eng. L. & Eq. 379; Bill v. Darenth, etc., R. Co., 1 H. & N. 305; 37 Eng. L. & Eq. 539; East Anglican R. Co. v. Lythgoe, 10 C. B. 726.

[3] Fraylor v. Sonora Mining Co., 17 Cal. 594.

[4] New York, etc., R. Co. v. Ketchum, 27 Conn. 170; Loan Association v. Stonemetz, 29 Penn. St. 534; Hodges v. Rutland R. Co., 29 Vt. 220; Chandler v. Monmouth, 8 N. J. Eq. 101, 255.

[5] Kilpatrick v. Penrose Ferry, etc., Co., 49 Penn. St. 118. See, also, Schackelford v. New Orleans R. Co., 37 Miss. 202; Henry v. Rutland R. Co., 27 Vt. 485.

[6] Sikes v. Hatfield, 13 Gray (Mass.), 347; Barton v. New Orleans, 16 La. Ann. 317; Garnier v. St. Louis, 37 Mo. 554; Philadelphia v. Given, 60 Penn. St. 136; Meagher v. County, 5 Nev. 244;

But the right of agents, aside from the officers of the corporation, to recover for services on a *quantum meruit*, in the absence of a stipulated salary or some express contract, has never been questioned. Where services were rendered for the benefit of a corporation before the completion of its organization, in obtaining subscriptions and removing obstacles to its organization, which were valuable, and at the request of parties who afterward became members of it, and the corporation, after its organization, accepted of such services and received the benefit and advantages of the same, it was held that the person rendering them was entitled to recover of the company therefor in an action of *assumpsit* upon an implied promise.[1]

Baker v. City of Utica, 19 N. Y. 326; United States v. Brown, 9 How. 487; McClung v. St. Paul, 14 Minn. 420; Smith v. Commonwealth, 41 Penn. St. 335; Boyden v. Brookline, 8 Vt. 284, where REDFIELD, J., observes: "It is very plain to us that a town officer, as such, has no legal claim against the town to recover pay for services rendered, unless by an express vote of the town, or a uniform usage to pay that particular officer, from year to year, for his services. And in the latter case, it would be very questionable whether a recovery at law could be had, if it had all along been left to the town to make such compensation as they should deem reasonable, after the services had been rendered. * * * The same principle has always been recognized in this state, in regard to all officers. If no law of the state fixed their fees or pay, their services must be gratuitous."

[1] Low v. Connecticut, etc., R. Co., 45 N. H. 375. In this case BELLOWS, J., observes:

"The great question is whether the plaintiff is entitled to recover of the corporation in any form for services rendered by him antecedent to its organization, but which were necessary to enable it to complete that organization; and if so, whether the action of *assumpsit* can be maintained.

"In considering the first question, it will be assumed, for the present, that the services were necessary; that they were rendered at the request of one or more of the original corporators, or of those who were associated with them; and that the corporation accepted those services after its organization, and enjoyed the benefit of them. Under such circumstances, we are inclined to the opinion that it would become the duty of the corporation to pay for such services; and that, in some form, this duty could be enforced.

"Questions of a similar character have repeatedly arisen in England, where the projectors or promoters of railway enterprises, who were about to solicit acts of incorporation, had agreed with the proprietors of land over which such railways were destined to pass, and who were prepared to oppose such acts of incorporation, to pay certain sums of money for the land to be taken, and for residential damages, in consideration that they should withdraw their opposition. In such cases where opposition was so withdrawn, and the charters obtained, and the companies organized, it has been repeatedly held that a duty was imposed upon the corporation to perform the contract of the projectors, upon the principle, it would seem, that a corporation is in equity bound by the contracts of its projectors preliminary to its incorporation, when it afterward takes the benefit of such contract. In Preston v. Liverpool, Manchester & Newcastle-upon-Tyne Railw. Co., 7 Eng. L. & Eq. 124, the vice-chancellor lays down the doctrine thus: 'Where the projectors of a company enter into contracts in be-

But an agreement in respect to services of a lobby-agent, or for the personal influence of an individual to procure the passage of

half of a body not existing at the time, but to be called into existence afterward, then if the body, for whom the projectors assumed to act, does come into existence, it cannot take the benefit of the contract without performing that part of it which the projectors undertook that it should perform.'

"This was a case where the projectors agreed to pay the complainant £5,000 for the land to be taken for the railway, and residential damages, and the plaintiff therefore assented that his land should so be taken. This agreement was in writing between the plaintiff and the executive directors of the Lancashire & North Yorkshire Railway Company, which was afterward united with another and rival enterprise, under the name of the defendant corporation, and the two companies agreed to adopt the contract with the plaintiff. Upon a bill in equity, the court held that the plaintiff was entitled to relief against the defendants, although the construction of the contract was referred to a court of law for an opinion.

"The same general doctrine is recognized in Gooday v. Colchester & Stour Valley Railw. Co., 15 Eng. L. & Eq. 596; Edwards v. Grand Junction Railway, 1 My. & Cr. 650; and Stanley v. Chester & Birkenhead Railw. Co., 9 Sim. 264; affirmed by the chancellor in 3 My. & Cr. 793. These cases are all suits in equity, and the doctrine of these is recognized in Redfield on Railways, 638, § 5; and some of them quoted and considered in § 7, p. 641, *et seq.*

"In the application of this doctrine to cases of agreements to pay money in consideration of withdrawing opposition to a charter, there might be serious objections, as suggested by Judge Redfield, in section 15 of his work on Railways, as being contrary to public policy; but in respect to agreements not open to such objections — that is, agreements that would bind parties in existence, and capable of contracting, — we think the principle is sound and well sustained by authority. If, then, this be a sound principle in respect to agreements made before the corporate existence commenced, it must surely apply with increased force to agreements made after the charter, and before the organization, of the corporation.

"Indeed, in the American courts, agreements made with corporations after their charter, but before organization, such as agreements to take and pay for shares in the capital stock, have been repeatedly enforced, and even by suits at law. Such are the cases of Chester Glass Co. v. Dewey, 16 Mass. 94, and Salem Milldam Co. v. Ropes, 6 Pick. 23, where subscribers for stock before organization were held liable for assessments to pay preliminary expenses incurred in obtaining the act of incorporation, and ascertaining the practicability of the enterprise, but not for the general objects of the corporation until all the shares were subscribed for. So in Kennebec & Portland Railw. Co. v. Palmer, 34 Me. 365; and Penobscott Railw. Co. v. Dummer, 40 id. 172. The same principle is recognized in Phillips Limerick Academy v. Davis, 11 Mass. 116, and Wallingford Manufacturing Co. v. Fox, 12 Vt 304; Gleaves v. Turnpike Co., 1 Sneed, 491; Lake Ontario Railw. Co. v. Mason, 16 N. Y. 451; Tonica, etc., Railw. Co. v. McNeeley, 21 Ill. 71; Vermont Central Railw. Co. v. Clayes, 21 Vt. 30.

"These cases go upon the ground that where such subscriber is received and acts as a member of the corporation, after the organization, and as the owner of the shares agreed to be taken, he is liable on his subscription, though made before the organization was effected; for, having taken the benefit of his subscription, he must also take the burden along with it. This, as it will be seen, is simply the converse of the doctrine which binds the corporation by a contract made by the projectors, and of which the corporation afterward takes the benefit. In a large proportion of cases, the subscriptions for stock necessarily precede the organization of the corporation and the choice of officers, but, upon the subscribers being received and acting as members, they would be bound by such subscriptions.

"The question then arises, whether

a public or private law by the legislature, is void, as prejudicial to sound legislation and against public policy.[1]

a suit at law can be maintained to recover of the corporation the value of these services. As before observed, the English cases referred to are bills in equity, and the reasoning of the courts tend to exclude the idea of suits at law. See, especially, Edwards v. Grand Junction Railway, 1 Mylne & Cr. 650. Where, however, the charter provided that the cost of obtaining it should be paid out of the first sums subscribed, it was held that debt would lie against the corporation by an attorney, who had solicited and obtained the charter, to recover for the costs, charges, and expenses. Tilson et al. v. Warwick Gas-light Co., 4 B. & C. 962. See Chitty on Cont. 250, and cases cited.

"In the case above cited, one count of the declaration was special, setting out the statute, and there were other counts for work and labor, and the court were inclined to hold that a recovery might be had on either count. In Hall v. Vt. & Mass Ry. Co., 28 Vt. 401, it was decided that a suit at law against a corporation would lie to recover for the services of the plaintiff in attending various meetings of the corporation after the charter, and before the organization, he having been one of the original corporators under the charter, by which subscriptions for five thousand shares were necessary before an organization could be perfected. The court held that the duty rested upon the corporators to do whatever was required by the charter to effect that result; that, although the corporation might not be vested with full corporate powers, yet it was *in esse*, and had an inchoate existence, and the corporators had the power, and were so far the agent of the corporation as to bind them by any act which they were required to do, or which was necessary to perfect their organization under the charter; and the court held, that, under the circumstances, a promise to pay was implied. That was an action of book debt, and is an express authority, that, in Vermont, a suit at law may be maintained; and it will be observed that in the case before us the corporation was chartered by the legislature of that state, and the road there located and built.

"Under these circumstances, we think that the contract must be regarded as made in Vermont, and there to be executed; and, therefore, in its nature, validity, and interpretation, to be governed by the laws of Vermont; while in respect to the form of the remedy, it is to be governed by our own laws. Dyer v. Hunt et al., 5 N. H. 401; Stevens v. Norris, 30 id. 466; 2 Kent's Com. 462.

"It may then safely be assumed, that, under the laws of Vermont, the corporation is liable in some form for services necessary to perfect its organization, and which, when such organization was perfected, it accepted and enjoyed the benefits arising therefrom. Such would be the case in respect to services in obtaining subscriptions to the capital stock, rendered by a corporator or associate, and which subscriptions were after the organization accepted by the corporation. Of course to entitle the plaintiff to recover, such services must have been necessary and reasonable, and rendered not gratuitously, but with the understanding and expectation that they were to be paid for.

"The question, then, is whether an action at law can be sustained in New Hampshire to enforce such claim; or whether resort can be had to equity alone. The objection to a recovery in a suit at law is purely technical, but it must, nevertheless, prevail if it be well founded. We are inclined to think, however, that it is no violation of settled principle to hold that a suit

[1] Powers v. Skinner, 34 Vt. 274. In this case KELLOGG, J., observes:

"Courts of justice have, with jealous care, endeavored to protect the legislation of the government from all illegitimate and sinister influences and agencies; and it has been settled by a series of decisions, uniform in their reason, spirit, and tendency, that an agreement in respect to services as a lobby-agent, or for the sale by an individual of his personal influence and solicitations, to procure the passage of a public or private law by the legis-

If the amount of salary of officers is fixed by the charter or other fundamental law, allowance in excess of such salary

at law may be maintained to enforce the obligation to pay for services rendered in the manner described, and of which the corporation, after its full organization, has taken the benefit. It it were true, that, at the time the services were rendered, the corporation had no capacity to make a contract,— which is by no means clear after the charter has been accepted,— still, if the services were rendered for the corporation upon the promise of the corporators that they should be paid for by it when its organization was perfected, and after that the corporation had adopted the contract and received its benefits, we think, that, upon the maxim that a subsequent ratification is equivalent to a prior request, it may well be held that a promise to pay will be implied. Upon this principle, a person may sue on a contract made in his name by one assuming to have authority, but having none in fact. So the title of an administrator will relate back to the death of the intestate, so as to entitle him to sue for the price of goods sold by one assuming to act for the administrator, whoever might be afterward appointed,—Broom's Legal Maxims (676), and cases cited,— and still at the time of such sale there was no one in existence having capacity to make a contract as administrator. See, also, Foster v. Bates, 12 M. & W. 226. So if one without authority buys goods for another, but afterward the other receives them, this is equivalent to a previous request. 1 Wms. Saund. 264, n. 1; Broom's Legal Maxims (596); Story on Agency, §§ 244, 250; Keyser v. School District, 35 N. H. 481, 482."

lature, is void as being prejudicial to sound legislation, manifestly injurious to the interests of the state, and in express and unquestionable contravention of public policy. Clippinger v. Hepbaugh, 5 W. & S. 315; Wood v. McCann, 6 Dana (Ky.), 366; Marshall v. Balt. & Ohio Ry. Co., 16 Howard (U. S. Sup. Ct.), 314; Harris v. Roof's Ex'rs, 10 Barb. (Sup. Ct.) 489; Rose et al. v. Truax, 21 id. 361; Bryan v. Reynolds, 5 Wis. 200. The principle of these decisions has no respect to the equities between the parties, but is controlled solely by the tendency of the contract; and it matters not that nothing improper was done, or was expected to be done, under it. The law will not concede to any man, however honest he may be, the privilege of making a contract which it would not recognize when made by designing and corrupt men. A person may, without doubt, be employed to conduct an application to the legislature as well as to conduct a suit at law, and may contract for, and receive pay for his services in preparing and presenting a petition or other documents, in collecting evidence, in making a statement or exposition of facts, or in preparing and making an oral or written argument, provided all these are used, or designed to be used, either before the legislature itself, or some committee thereof, as a body; but he cannot with propriety be employed to exert his personal influence, whether it be great or little, with individual members, or to labor privately in any form with them, out of the legislative halls, in favor of or against any act or subject of legislation. The personal and private nature of the services to be rendered is the point of illegality in this class of cases. Sedgwick v. Stanton, 14 N. Y. 289. Our government, in theory, is founded on the most exalted public virtue, and the principle which forbids the legal recognition of any contract for such services is so essential to the purity of the government, and is so firmly established as a rule of public policy, that it requires no vindication. It has not been questioned by counsel in argument, and no member of the court has had any doubt in respect to its propriety, or any hesitation in recognizing its authority. It is equally well settled that where a contract is an entire one, and contains an element which is legal, and one which is void as being against public policy, it cannot be sifted, so that the legal service rendered under it, or in its pursuit, can be separated from the illegal service, and a recovery had for so much of the service as would, if considered by itself, be adjudged to be legal. If

cannot be made by the corporation nor can it be made by the board of directors.[1]

SEC. 197. **Frauds of officers and agents.** — We shall hereafter consider the liability of corporations for the frauds and other torts of their officers and agents, merely premising here that in such cases the liability of the corporation is the same, in the absence of express provision of the law on the subject to the contrary, as would be the liability of a natural person under similar circumstances, the general principle being that they are liable in damages for frauds and misrepresentations of their agents perpetrated and made in the due course of their employment, and for such torts as occur by their permission or express direction.[2]

SEC. 198. **Proof of agency.** — From what has been said in reference to corporate acts, either by the corporate body, or by the directors, it will be apparent that the best evidence of appointment of an agent and his authority to act is the books of the company containing the entry of the resolution or act of appointment.[3] As the secretary of the corporation would ordinarily be the proper custodian of the books and records of the corporation, he would be the proper person to prove the records to be those of

any part of an indivisible promise, or any part of an indivisible consideration for a promise, is illegal, the whole is void, and no action can be maintained on it. Chitty on Contracts, 536, c. ; Filson's Trustee v. Himes, 5 Penn. 452 ; Rose *et al.* v. Truax, *ubi supra.*"

In the case of Revere v. The Boston Copper Co., 15 Pick. 351, it was held, that a corporation having made a contract with the plaintiff to serve its interests during his life, and promised in consideration thereof the payment of a fixed salary, so long as the service continued to be faithfully performed, cannot relieve itself from its responsibility by voting the dissolution of the corporation, transferring its property to trustees for the purpose of closing up its concerns, and giving notice to the executive authority of the state that it claims no further interest in its act of incorporation.

If this is attempted the plaintiff is thereby released from his obligation to serve the corporation, and is entitled to an indemnity for the loss which he has sustained in consequence of the refusal of the company to employ him and pay the stipulated salary.

[1] Carr v. City of St. Louis, 9 Mo. 191. See, also, Utica Ins. Co. v. Bloodgood, 4 Wend. 652 ; Godbold v. Bank of Mobile, 11 Ala. 191 ; Carr v. Chartier's Coal Co., 25 Penn. St. 337 ; St. Luke's Church v. Mathews, 4 Dev. Ch. 578.

[2] See *post*, chap. 13.

[3] Thayer v. Middlesex Ins. Co., 10 Pick. (Mass.) 326 ; Narragansett Bank v. Atlantic Silk Co., 3 Metc. (Mass.) 282 ; Clark v. Benton Manuf. Co., 15 Wend. 256 ; Haven v. New Hampshire Asylum, 13 N. H. 532 ; Owings v. Speed, 5 Wheat. 420 ; Methodist Chappel Co. v. Herrick, 25 Me. 354.

the corporation, which would be necessary in order to use the same as evidence of the matters therein contained.[1] But we have already considered the effect of the recognition of the agent's acts by the directors or the corporate body, as by accepting of the results or fruits of his agency, and as furnishing evidence of his agency.

The principles of evidence applicable to the proof of agency, generally, would be equally applicable where it is claimed that a corporation is the principal.

[1] Smith v. Natchez Steamboat Co., 1 How. (Miss.) 478.

But as we have already noticed, proof of appointment of the agent may be inferred from corporate acts. See *ante*, § 162.

CHAPTER VIII.

CORPORATE MEETINGS.

SEC. 199. How the will of the corporate body is expressed.
SEC. 200. Notice of corporate meetings.
SEC. 201. Common-law doctrine relating to notices.
SEC. 202. Waiver of notice — presumptions.
SEC. 203. Adjourned meetings.
SEC. 204. General and special meetings.
SEC. 205. The majority at corporate meetings may express the corporate will.
SEC. 206. Doctrine in case of a pledge of stock — right of pledgee or trustee to vote.
SEC. 207. Meetings of directors.
SEC. 208. Acts of an irregular meeting may be valid.
SEC. 209. Can the directors only act as a board?
SEC. 210. Same continued.
SEC. 211. What constitutes a *quorum*.
SEC. 212. Same continued.
SEC. 213. Majority may act.
SEC. 214. The powers of directors.
SEC. 215. The mode of expressing assent by directors.
SEC. 216. Corporate meetings cannot be held outside the state.
SEC. 217. Directors may hold meetings outside the state.
SEC. 218. Jurisdiction of equity to restrain by injunction.

SEC. 199. **How the will of the corporate body is expressed.** — The will of the corporation, it being only an artificial and ideal body, can only be expressed by the corporators or other persons composing it. In order to secure an expression of this will, when necessary, a meeting of the corporators would ordinarily be the most convenient. At all such meetings the members should have an opportunity to be present, and a right to a voice or vote on any question of corporate policy or action, in the absence of any limitation of this right in the constitution of the corporate body; the general rule being, that the will of the majority is the will of the corporate body.[1] This doctrine applies, not only in reference to the

[1] McBride v. Porter, 17 Iowa, 203; 2 Kent's Com. 293; St. Mary's Church, etc., 7 S. & R. 517; Keyser v. Stansifer, 6 Ohio, 363.

adoption of by-laws, for the general management of its concerns, including the mode of appointment or election of officers and agents, and the granting of special or general powers to them, but the right to direct the management, in general, of the affairs of the corporation. They may, in case there is no limitation of power in the organic law, determine, by the vote of the majority, all questions of policy that come within the general scope of the power conferred upon the corporation. They may prescribe the times of meetings, general or special, the manner of giving and the time of notice required to be given to the members, provide for the election of officers, agents and managers, and prescribe the authority they possess, the duties imposed upon them, and the mode of performing them. If a person signs articles of association, which is required under the general incorporating statutes of most of the states to effect an incorporation, or constitutes himself a member subsequently, by a purchase of its stock, it is with the understanding that, in case no other provision is made, he will, in the management of its affairs, submit to the will of the majority; the fundamental principle being, "that no one shall be bound without his own consent, expressed by himself or his representative; but actual assent is immaterial, the assent of the majority being the assent of all: this is not only constructively but actually true; for that the will of the majority shall in all cases be taken for the will of the whole is an implied but essential stipulation in every compact of the sort; so that every individual who becomes a member assents, beforehand, to all measures that shall be sanctioned by a majority of the voices."[1]

Sec. 200. **Notice of corporate meetings.** — In order to secure an expression of the will of the members of a corporation, in relation to various matters of concern to it, it is usually necessary to have meetings of the members. And at all meetings the members have a right to be present, and give an expression to their views

[1] Gibson, J., in *Re* St. Mary's Church in Philadelphia, 7 S. & R. 517; Congregation v. Johnston, 1 id. 9; 1 Kyd on Corp. 422; 2 Kent's Com. 236; Dudley v. Kentucky High S., 9 Bush, 576; Mowrey v. Ind. C. R. Co., 4 Biss. 78; Troy & Rutland R. Co. v. Kerr, 17 Barb. 581; Horton v. Baptist Church, 34 Vt. 316; Lauman v. Lebanon R Co., 30 Penn. St. 46; East Tenn R. Co. v. Gammon, 5 Sneed, 567; Gifford v. N. J. R. Co., 10 N. J. Eq. 172; Black v. Delaware, etc., R. Co., 22 id. 130.

and judgment as to corporate action and policy, and to enforce them by their vote, unless restrained by the provisions of the articles of association, express or implied. In order, therefore, to secure such an expression of views, some notice is usually required by the organic law or the by-laws of the association, to be given to the members composing it; and in the absence of any provisions in reference to notice, the general principles of the common law would probably require reasonable personal notice to be given.[1] And even by-laws, relating to notice, which are repugnant to the fundamental laws of its constitution, will be considered as void.[2] The failure to give the notice required will generally invalidate a corporate meeting.[3] And it is held to be a plain dictate of reason, that no function intrusted to, or existing in a number of persons, can be rightfully or lawfully exercised without a reasonable notice to all the members composing the body.[4]

If the articles of association or by-laws provide for the times and places of holding meetings, it would, undoubtedly, be the duty of members to take notice of the same; and if they prescribe the notice to be given, such notice as required as to the time and mode of service may undoubtedly be given, and this would be all that could be required.[5]

[1] Rex v. Langhorn, 4 Ad. & El. 538; People v. Batchelor, 22 N. Y. 128; People's Ins. Co. v. Westcott, 14 Gray, 440; State v. Ferguson, 31 N. J. L. 107.

[2] Tucker v. Rex, 2 Bro. P. C. 304; Hoblyn v. Rex, id. 329. See, also, Rex v. Attwood, 4 B. & Ad. 481; N. M. 286; Rex v. Westwood, 7 Bing. 1; 4 B. & C. 781; Rex v. Bird, 13 East, 367; Green v. Durham, 1 Burr. 127.

[3] Rex v. Chetwynd, 7 B. & C. 695; Moore v. Hammond, 6 id. 455.

As to notice of adjourned meetings required to be given to those who attend the original one, see Willis v. Murry, 4 Ex. 843; Warner v. Mower, 11 Vt. 385.

[4] People v. Batchelor, 22 N. Y. 128; People's Ins. Co. v. Westcott, 14 Gray, 440; 1 Redf. on Rail., § 20. And the absence of a member from home will not, ordinarily, excuse a want of notice. Jackson v. Hampden, 20 Me. 37. But it has been held that the mental imbecility of a member will not render the proceedings of a corporate meeting invalid on account of a want of notice to him. Stebbins v. Merritt, 10 Cush. 27. The pledgee of stock is not generally entitled to notice. McDaniels v. Flower Brook Manuf. Co., 22 Vt. 274. Where, by the records of a meeting, it appeared that a majority of the directors were present, it was held that it would be presumed that all had requisite notice. Sargent v. Webster, 13 Metc. 497; Lane v. Brainerd, 30 Conn. 565. Nor can the validity of the acts of directors be collaterally questioned on the ground of a want of notice. Chamberlain v. Painesville, etc., R. Co., 15 Ohio St. 225.

[5] People v. Batchelor, 22 N. Y. 128. The time and place of meeting, it is claimed, may be fixed by usage, a tacit understanding of the members, or in other ways, of which members may be required to take notice. Atlantic Ins. Co. v. Sanders, 36 N. H. 252.

Sec. 201. **Common-law doctrine relating to notices.** — The common law, in the absence of statutory or other regulations on the subject, would require such notice to be personally given;[1] that it be in writing and signed by the proper officer of the corporation;[2] that it contain the time and place of meeting, unless there be some standing rule or general custom, known to the members, fixing these things;[3] and state the business to be transacted, unless it is a general meeting for the transaction of business, or for a particular object provided for by the articles or by-laws of the corporation.[4]

In the absence of any provision for the length of notice a reasonable time is required, or the usual time, if a custom prevails.[5]

[1] Stevens v. Eden Meeting House Soc., 12 Vt. 688; Wiggins v. Freewill Baptist Church, 8 Metc. (Mass.) 301; Stowe v. Myse, 7 Conn. 214; Savings Bank v. Davis, 8 id. 191, Taylor v. Griswold, 2 Green, 222; Rex v. Langhorne, 6 N. & M. (N. C.) 203; Stow v. Myse, 7 Conn. 219; Bethany v. Sperry, 10 id. 200.

[2] The summons must be from one having authority to issue the same. Evans v. Osgood, 18 Me. 213; Stevens v. Eden Meeting House Soc., 12 Vt. 688; Bethany v. Sperry, 10 Conn. 200. See, also, in case of no officer authorized to give notice, Goulding v. Clark, 34 N. H. 148; Citizens' Mut. Fire Ins. Co. v. Sortwell, 8 Allen, 217; Chamberlain v. Painesville, etc., R. Co., 15 Ohio St. 225. But it has been held that the notice need not be in writing, and that if the members are fully informed of meetings by parol, it is sufficient. Wilc. on Corp. 46; Rex v. Hill, 4 B. & C. 442.

[3] *Re* British Sugar Refining Co., 3 K. & J. 408; 26 L. J. Ch. 369; Graham v. Van Diemen's Land Company, 1 H. & N. 541; 26 L. J. Ex. 73; *Re* Irrigation Company of France; Fox Case, L. R., 6 Ch. 176; Jones v. Milton & Rush T. Co., 7 Ind. 547; Warner v. Mower, 11 Vt. 385.

[4] Sampson v. Bowdoinham Steam Mill Corp., 36 Me. 78; Warner v. Mower, 11 Vt. 385; Merritt v. Ferris, 22 Ill. 303; Brice's Ultra Vires, 354.

[5] Wiggin v Freewill Baptist Soc., 8 Metc. (Mass.) 301; Long Island R. Co., *in rem*, 19 Wend. 37; Rex v. Hill, 4 B. & C. 442.

In reference to notice, Redfield, J., in Warner v. Mower, 11 Vt. 385, observed: "It is to be borne in mind, too, that a manifest distinction obtains between general stated meetings of a corporation, and special meetings. I know that stated meetings may nevertheless be special; *i. e.*, limited to particular business. But stated meetings of a corporation are usually general; *i. e.*, for the transaction of all business within the corporate powers. Unless the object of such meeting is restricted by express provision of the by-laws, it would ordinarily be understood to be general; and so every corporator would be bound to understand it. But if the object of the meeting be limited by the by-laws, it is then a special meeting, and no other business could lawfully be transacted at such meeting, unless special notice was given. Where the meeting is stated and general, no notice is required, either of the time or place of holding the meeting, or of the business to be transacted. Such is the general law of private corporations. But as all corporations are entities of the law merely, and exist and act solely in conformity to their charter and by-laws, it is obvious that the force and effect of every act of any particular corporation must depend mainly upon the charter and by-laws of that corporation. These are denominated the constitution and laws of the corporation, and, like every other constitution and all other laws, should receive such construction, as to effect the probable intention of the framers. That intention must be

In reference to this, Mr. Dillon observes: "Due notice of the time and place of a corporate meeting is by the English law essential to its validity, or its power to do any act which shall bind the corporation. Respecting notice, the courts in England adopted certain rules which, since they form the basis of much of the statute law in this country upon the subject, and have in the main been followed by our courts, and as they are founded on reason, may advantageously be here mentioned. All corporations are presumed to know of the days appointed by the charter, statute, usage, or by-laws, for the transaction of particular business, and hence no notice of such meeting for the transaction of such business is necessary, or for the transactions of mere ordinary affairs of the corporation on such days, yet, if it is intended to proceed to any other act of importance, a notice is necessary the same as at any other time. A notice, when necessary, must, if practicable, be given to every member who has a right to vote; where the act is given to one to be done by a body consisting of a definite class or classes, it must be given by or issued by order of some one who has the authority to convene a corporate meeting. But notice may be altogether dispensed with, or its necessity waived, by the presence and consent of every one of those entitled to it. It must be served personally upon every resident member, or left at his house. If temporarily absent, it may be left with his family, or at his home or last place of abode."[1]

judged of, as in other cases, by the words used in reference to the subject-matter and circumstances of each particular corporation.

"The charter of this corporation provides for the first meeting of the corporation specially, and that at that meeting, and at all other meetings legally notified they may make and alter such by-laws as may be thought necessary. There being thus no restriction in the charter in relation to meetings of the corporation or the business to be transacted, that subject will be governed exclusively by the by-laws.

"Those by-laws provide for an annual meeting of the corporation, to be holden at their counting room, on the first Wednesday in April of each year. Thus far the time and place of the meeting is fixed, and there being no restriction in regard to business, any and all business pertaining to the interest and powers of the corporation may be transacted. The annual meeting of all others is the one when, not only usually but always, *all* business is expected to be transacted. And the custom of a country is of great force in the construction of statutes as well as contracts."

[1] Dill. on Mun. Corp., §§ 200, 201.

He further states, "The notice must state the time of meeting, and the place if it be not the usual place. It is not necessary to state what business is to be done when the meeting relates only to the ordinary affairs of the corporation; but when it is for the purpose of

What is thus stated relates to municipal corporations, and the notice required to be given to the members of the select or representative body, denominated a council; but it is equally applicable to the select body, in private corporations known as the executive committee or the board of directors.

Sec. 202. **Waiver of notice — presumptions.**— We have already alluded to the fact that the right to notice of a corporate meeting may be waived. If all the members assemble at any meeting and it proceeds to business, this is a waiver of want of notice and the action of the body is not affected thereby.[1] In some cases notice will be presumed in the absence of proof to the contrary. Thus, where it is shown by the records of a meeting of the directors of a corporation that a quorum was present, notice to the others will be presumed.[2] And it has been held that the validity of the acts of directors cannot be collaterally questioned on the ground of the want of requisite notice of the meeting to all the members of the board.[3] The want of irregularity of notice is generally held to be waived, by the presence of all who have a right to attend a meeting.[4]

electing or removing officers, passing ordinances, and the like, the fact should be stated so that the members may know that something more than the usual routine of business will be transacted. Such great importance is attached to notice that it can only be waived by universal consent; but if every member of a select body be present at a regular or stated meeting, they may, if every one consents, but not otherwise, transact any business, ordinary or extraordinary, though no notice was given, or an insufficient notice; but the unanimity of consent should plainly appear from their recorded declaration, acts, or conduct. This unanimity is only necessary to enter upon the business; once commenced, the rules which govern the body and its actions apply." 1 Dill. on Mun. Corp., § 202.

The old English doctrine in relation to municipal corporations was, that where corporate acts were to be done not on a charter day, and by a select body, there must be a summons of every member, except such as have absolutely deserted the town. Bac. Abr., tit. E., § 8.

[1] Rex v. Oxford, Palm. 453; Rex v. Chetwynd, 7 B. & C. 695; *Re* British Sugar Refining Co., 3 K. & J. 408; 26 L. J. Ch. 369; Samuel v. Holliday, 1 Woolw. (C. C.) 400.

[2] Sargent v. Webster, 13 Metc. (Mass.) 497; Lane v. Brainard, 30 Conn. 565; Middlesex, etc. v. Davis, 3 Metc. 133. And if the by-laws provide for the place of meetings and the records do not show that the meetings were at a different place, it would be presumed that the meetings were held at the place designated by the by-laws. McDaniels v. Flower Brook Co, 22 Vt. 274.

[3] Chamberlaine v. Painesville, etc., R. Co., 15 Ohio St. 225.

[4] Stebbins v. Merritt, 10 Cush. 27; People v. Peck, 11 Wend. 604; Jones v. Milton T. Co., 7 Md. 547. And in Ohio notice need not be given by those named in the original articles of association, for the purpose of incorporating under a general law. Chamberlaine v. Painesville, etc., R. Co., 15 Ohio St. 225.

But if one person is absent who has not received the required notice, or if present refuses his consent to the proceedings, they have been held invalid.[1] But a subsequent recognition by a member, of an agent appointed at a meeting held without giving a proper notice to him, has been held to be a waiver of such notice.[2] And it is well settled that where a board of directors of a corporation, formed for pecuniary profit, orders an act to be done, and the act is subsequently performed, its legality cannot afterward be questioned by any director or stockholder on account of the irregularity of the meeting where he made no objection to the act at the time or afterward when he had an opportunity to do so.[3]

SEC. 203. **Adjourned meetings.** — It is a general rule that corporate meetings may be adjourned, and if a corporate meeting is regularly called any business that might have been lawfully transacted at the original meeting may also be done at the adjourned meeting. This is also in accordance with the general rule of parliamentary proceedings.[4]

On this subject Mr. Redfield observes: "It is too well settled to require comment that all corporations, whether municipal or private, may transact any business at an adjourned meeting which they could have done at the original meeting. It is but a continuation of the same meeting. Whether the meeting is continued without interruption for many days, or by adjournment from day to day, or from time to time, many days intervening, it is evident it must be considered the same meeting without any loss or accumulation of powers." [5]

In the absence of particular regulations on this subject, the power to adjourn corporate meetings is an incidental common-law right, and adjournments may be made in the usual way to any

[1] People's Ins Co. v. Westcott, 14 Gray, 440.

[2] Bryand v. Goodman, 5 Pick. 228.

[3] Samuel v. Holliday, Woolw. (C. C.) 400. See also, Leavitt v. Yates, 4 Edw. Ch. 134; Bank of Alabama v. Comegys, 12 Ala. (N.S.) 772; Williams v. Christian Female College, 29 Mo. 250; Port of Lond. Assurance Co. Case 35 Eng. L. & Eq. 178; Hoyt v. Thompson, 19 N. Y. 207.

[4] 1 Dill. on Mun. Corp., § 226.

[5] Warner v. Mower, 11 Vt. 385. See, also, Smith v. Law, 21 N. Y. 296; People v. Batchelor, 22 id. 128; Farrar v. Perley, 7 Me. 404; Schoff v. Bloomfield, 8 Vt. 472; Field v. Field, 9 Wend. 394; Warner v. Mower, 11 Vt. 395; Hudson Co. v. State, 24 N. J. L. 718; Insurance Co. v. Sanders, 36 N. H. 252.

future time the same day or any other day, and even to another place than the one where it originally met, if within the territory of its creation.[1]

Sec. 204. **General and special meetings.** — The meetings of corporate bodies may be denominated general and special. The general meetings are usually fixed by the constitution or by-laws of the body, and occur at stated times and places, such as the usual annual or semi-annual meetings for the election of a board of directors and the transaction of other important business. Special meetings are such as are called on particular occasions, and for special purposes. They differ in respect to the notice required. In the former case, if notice is required, it would not be necessary ordinarily to specify the business to be transacted, as members would be required to take notice of it if it was not referred to. But in the latter case, it would be necessary to particularly specify or call attention to the business to be transacted.[2] And it has been held that a notice of a meeting extraordinary in respect to the time of holding it need not specify the business if it is ordinary business.[3]

On the other hand, if the time is that fixed by the laws of the body, but business of an extraordinary character is to be transacted, the notice should contain this special object.[4] And although a member is bound by the action of a majority in relation to matters coming within the scope of the authority of a general meeting, still he is not bound by a notice of a special meeting, given to the attending members of such general meeting; for he would not reasonably expect a notice of that kind to be thus given.

On the subject of general and special meetings, Redfield, J., remarks: "It is to be observed that a manifest distinction obtains between general stated meetings of a corporation and special meetings. I know that stated meetings may, nevertheless, be

[1] Chamberlain v. Dover, 13 Me. 466; People v. Martin, 5 N. Y. 22; Hubbard v. Winsor, 15 Mich. 146; Kimball v. Marshall, 44 N. H. 466; Goodel v. Baker, 8 Cow. 286.

[2] People v. Batchelor, 22 N. Y. 128; id. 146; Downing v. Ruger, 21 Wend. 178; Burgess v. Pue, 2 Gill, 254; Stow v. Wyse, 7 Conn. 214; Smyth v. Darley, 2 H. of L. Cas. 789; Dill on Mun. Corp., § 224.

[3] Savings Bank v. Davis, 8 Conn. 191.

[4] Zabriskie v. Railroad Co., 23 How. 381; Sampson v. Bowdoinham Steam Mill Corp., 36 Me. 78; People's Ins. Co. v. Westcott, 16 Gray, 440; Atlantic Delaine Co. v. Mason, 5 R. I. 463.

special, *i. e.*, limited to particular business. But stated meetings of a corporation are usually general, *i. e.*, for the transaction of all business within the corporate powers. Unless the object of the meeting is restricted by express provisions of the by-laws, it would ordinarily be understood to be general; and so every corporation would be bound to understand it. But if the object of the meeting be limited by the by-laws, it is then a special meeting, and no other business could lawfully be transacted unless special notice was given. Where the meeting is stated and general, no notice is required, either of the time or place of holding the meeting or of the business to be transacted." [1]

SEC. 205. **The majority at a corporate meeting may express the corporate will.** — Where no special provision is made in relation to the matter, a majority of those present may express the corporate will; and the whole body is bound by their acts, whether the number present be a majority of the whole number of members or not.[2] The whole are not only bound by a majority of the members, but by a majority of those present at a lawful meeting. The majority of those who appear constitute a body capable of transacting business, in the absence of any limitation as to the number who may act. And the will of the majority of the stockholders, who constitute members of the corporation, may adopt by-laws that shall direct and control the directors, who are but the agents of the corporation, appointed by the corporators.

It is a common-law principle that if an act is to be done by an indefinite body, as the whole body of the corporators, it is valid, if directed to be done by a majority of those present at a legal meeting, no matter how small a portion they may constitute of the whole number that may be entitled to be present, unless it is otherwise provided by law.[3] But this is not the doctrine where a definite body, as a board of directors, is authorized to act, which we have already fully considered in treating of directors.[4]

[1] Warner v. Mower, 11 Vt. 385. See, also, Redf. on Rail., chap. 4, § 4.

[2] See *post*, chap. 10.

[3] Damon v. Granby, 2 Pick. 345; Commonwealth v. Ipswich, id. 70; Williams v. Lunenburgh, 21 id. 75; Church Case, 5 Rob't 649; First Parish v. Sterns, 21 Pick. 148; State v. Binder, 38 Mo. 450; St. Mary's Church, 7 S. & R. (Penn.) 517; Presbyterian Cong. v. Johns. 27 Miss. 517; Gifford v. New Jersey R. Co., 10 N. J. Eq. 171; Sprague v. Illinois River R. Co. 19 Ill. 174; East Tenn. R. Co. v. Gammon, 5 Sneed, 567; Horton v. Baptist Church, 34 Vt. 316.

[4] See *ante*, chap. 6.

Mr. Kent refers to this distinction and remarks: "There is a distinction taken between a corporate act to be done by a select and definite body, as by a board of directors, and one to be performed by the constituent members. In the latter case, a majority of those who appear may act, but in the former, a majority of the definite body must be present, and then a majority of the quorum may decide. This is the general rule upon the subject; and if any corporation has a different modification of the expression of the binding will of the corporation, it arises from the special provisions of the act or charter of incorporation."[1]

In California the power of electing directors of a railroad corporation, by the statute of 1850, vested in the stockholders.[2] And it has been held in that state that, the exercise of this power having been regulated by the statute, a corporation could not by by-laws, resolutions or contracts, either give or take away the authority thus conferred.[3]

Sec. 206. **Doctrine in case of a pledge of stock — right of pledgee or trustee to vote.** — It has been held that where stock stood in the name of a trustee, although he was a mere pledgee, he was entitled to vote in the absence of any claim in that respect of the pledgor; and that the corporation was not obliged to recognize the claim of the pledgor until it was established by the court; and that after an election, where such pledgee was allowed to vote, the result would not be disturbed by a court on the application of the pledgors.[4] But the doctrine generally recognized is, that the pledgees or trustees of a corporation, holding the corporate stock as such, cannot be allowed to vote on such stock. To allow him so to do, it is maintained, would be against public policy. In the case of *Ex parte Willcocks*, the supreme court of New York remarks: "We do not hesitate to say that in a clear case of hypothecation the pledgor may vote. The possession may well continue with him, consistently with the nature of the contract, and the stock remains in his name. Till enforced, and the title made absolute in the pledgee, and the name changed on the

[1] 2 Kent's Com. 293. See, also, 1 Kyd on Corp. 308, 400, 424; 1 Bl. Com. 478; Dill. on Corp., § 215.

[2] Stat. Cal. 1850.

[3] Brewster v. Hartley, 37 Cal. 15.

[4] Hoppin v. Buffum, 9 R. I. 513.

books, he should be received to vote." [1] But it appears in this case that the decision rested upon the case of *Ex parte Holmes*,[2] in which case the shares stood in the names of persons who were the trustees of the corporation; and it cannot be considered as determining that a trustee, other than of the corporation, could not vote on the shares thus held by him as such trustee.[3]

In case of a pledgee or trustee of a corporation, the supreme court of California remarks: "The question here is, not whether the pledgee or trustee to whom stock has been pledged or retransferred by a stockholder, and who appears upon the books of the corporation to be the owner, is entitled to vote, but it is, whether the agent or trustee of the pledgee, who is described in the certificate book of the corporation as a trustee, and who holds as such trustee or agent certain shares of stock which were pledged by the corporation to its creditor, is entitled to vote such stock. The designation of McLane as trustee was insufficient to show that he did not hold the stock in his own right, and as the corporation was one of the parties to the contract, its officers are chargeable with notice of the manner in which he held the stock.

The case falls within the principle of *Ex parte Holmes*, in which it was held that there could be no vote upon stock owned by the company, though held by trustees; that it was not stock to be voted upon by any one within the meaning of the charter or the general act relating to that subject. Subsequent cases, like *Ex parte Barker*, though qualifying and restricting the broad language of *Ex parte Holmes*, so as not to exclude the vote of a trustee upon the stock held in trust for a stockholder, have not questioned the doctrine that the stock belonging to the corporation, though held in the name of trustees, was not entitled to be voted upon. This doctrine must command the assent of every one, unless it can be shown that a corporation can become a stockholder, in the sense of the statute, of its own stock, receiving of itself dividends and responding to itself for calls for assessments, and being responsible for the debts of the corporation, first as a corporation and second as a stockholder." [4]

[1] 7 Cow. 402.
[2] 5 Cow. 426.
[3] See Barker, *Ex parte rel.* to Merc. Ins. Co., 6 Wend. 509.
[4] Brewster v. Hartley, 37 Cal. 15; see, also, *Ex parte* Holmes, where the supreme court of New York in construing the statute of that

Sec. 207. **Meetings of directors.** — It will hardly be necessary in this treatise to consider the meetings of that class of corporations which consist of various integral and definite parts. Our corporations, constituted for pecuniary gain, are mainly, if not entirely, composed, as we have seen, of an indefinite number of members who are stockholders, and by virtue of a law of their institution, the affairs of the company are usually managed by a limited number of agents or directors who are elected at stated times by the corporators. In this connection we will briefly refer to and consider the subject of their meetings. In reference to these, we may observe, that many rules and doctrines that we have considered as applicable to the general meetings of the body would be applicable to directors' meetings. Such meetings, if unusual, should be ap-

state relating to the rights of stockholders, which provided "that in all cases where the right of voting upon any share or shares of stock of any incorporated company shall be questioned, it shall be the duty of the inspector of the election to require the transfer books of said company, and all such shares as may appear standing thereon in the name of any person or persons shall be voted on by such person or persons directly by themselves or by proxy, subject to the provision of the act of incorporation," held that the provision literally was broad enough to cover and include parties who might hold such stock as mere trustees.

The court remarks: "But the question remains whether the latter are to be deemed stockholders within the spirit of the act. True, the stock on which they voted in this case stands in their name, but on the face of the entry they are declared to be mere nominal holders. The real owner of the stock should vote, especially where his name is truly expressed in the books, though it might be otherwise, if he chose to have the entry simply in the name of another without expressing any trust. Now, these three persons, a majority of whom claim the right to vote, are mere trustees (they being trustees of the corporation), and they are trustees not for the directors but the company, the corporation itself. If there could be a vote at all upon such stock, one would suppose that it must be by each stockholder of the company in proportion to his interest in it.

This brings us to the important difficulty in the case, which is, whether stock thus held can vote at all. And we think it is not to be considered as stock held by any one for the purpose of being voted upon. No doubt the company may, from necessity, as in this case take their own stock in pledge or payment, and keep it outstanding in trustees, to prevent its merger, and convert it to their security. But it is not stock to be voted upon, within the meaning of the charter or the general act upon which we are proceeding. It is not to be tolerated that a company should procure stock in any shape which its officers may wield to the purposes of an election, thus securing themselves against the possibility of a removal." See, also, American Railway Frog Co. v. Haven, 101 Mass. 398.

In the case of *Ex parte* Holmes, *supra*, the stock was held in trust for the corporation. But, as we have seen, stock held by trustees for the benefit of others may be voted upon. See, also, Barker, *ex parte*, etc. 6 Wend. 509; Hoppin v. Buffum, 9 R. I. 513.

pointed by the directors, or some person duly authorized for that purpose, and the requisite notice given to each director.

The notice and the mode of serving it is usually prescribed by the articles, by-laws, or other regulations of the body or the board. And, like meetings of the corporate body, the meetings of the governing body will not be legal, unless the requirement of the law in respect to notice is complied with.[1] And it has been held in England, that if an advertisement is required, as a notice to the members of the board, a circular will not be sufficient.[2]

SEC. 208. **Acts at an irregular meeting may be valid.**— It must not be supposed, however, that all acts and proceedings at an irregular meeting of the board will, under all circumstances, be considered absolutely void. On the contrary, where the interests of third parties are concerned, they have been held valid. Thus, in a recent case, Mr. Justice MILLER, on this question, expresses himself thus: "The rule is very well settled, and is supported by abundant reasons, that where, at a meeting of the board of directors of a corporation, formed for the purposes of pecuniary profit, an act is ordered to be done without objection, either then or subsequently made to the regularity of the meeting, by any director or stockholder, and the act thus authorized is afterward performed, its legality cannot afterward be questioned in a suit in equity, on the ground of irregularity."[3]

SEC. 209. **Can the directors only act as a board?** — Much controversy exists as to whether the directors may act as directors or agents of the corporation, except as a board, or whether they cannot assent to matters relating to the corporation, separately, and not at a regular meeting, in the capacity of a board. Mr. Redfield, on this subject, observes: "The decision of a majority of the board of directors is usually regarded as binding upon the company, and the assembling of a majority will be treated as a legal quorum for the transaction of business, unless the charter or by-

[1] Smyth v. Darley, 2 H. of L. 789.
[2] *Re* British Sugar Ref. Co., 3 K. & J. 408; 26 L. J. Ch. 369.
[3] Samuel v. Holladay, 1 Woolw. (C. C.) 400; With. Am. Corp. Cas. 139. See, also, Bank of Alabany v. Comegys, 12 Ala. (N. S.) 772.

laws contain some specific provision upon the subject, and notice to the absent directors will be presumed unless the contrary appear.

"The general rule upon this subject is that the act of a majority of public officers is binding; but that if they be of private appointment, all must act, and in general all must concur, unless there is some provision to accept the decision of a majority. In this respect railway directors certainly come under the former head. The proper distinction upon the subject seems to be, that where the matter is of public concern, and of an executive or ministerial character, the act of a majority of the board will suffice, although the others are not consulted. But where the function is judicial, involving the determination of some definite question, the whole body must be assembled and act together. If the matter is of public concern, the decision of a majority will bind, but in private concerns, as arbitrations, all must concur."[1] Thus, in England, where a quorum consisted of three directors, and the secretary had affixed the seal of the corporation to a bond after obtaining the written authority of only two of them at a private interview and at another private interview the verbal promise of another to sign the authority, the court held that there should be at least a combined action.[2] And in New Hampshire, it was held that where the by-laws of a private corporation confer upon the directors power to act in behalf of the corporation, without special limitation as to the manner, a majority may act within the scope of the authority given the board, and bind the corporation, either where there is a consultation of all together and a concurrence of a majority, or where there is a regular meeting at which all might be present and a majority actually meet and act by a majority vote; that the act of a majority does not

[1] 1 Redf. on Rail., chap. 4, § 23; Dispatch Line, etc., v. Bellamy Man. Co., 12 N. H. 205, where a doubt is expressed on this subject. See, also, Edgerly v. Emerson, 3 N. H. 555; Cammeyer v. German Churches, 2 Sandf. Ch. 186; Corn Exchange Bank v. Cumberland Coal Co., 1 Bosw. 436; Dey v. Jersey City, 19 N. J. Eq. 412; Schumm v. Seymour, 24 id. 153; Stoystown, etc., T. Co. v. Craver, 45 Penn. St. 386; Ross v. Crockett, 14 La. Ann. 811; Yellow Jacket Mining Co. v. Stevenson, 5 Nev. 224.

[2] D'Arcy v. Tamar, etc., R. Co., L. R., 2 Ex. 158; 36 L. J. Ex. 37; 4 H. & C. 463. But see *Re* Bonellis Tel. Co. Collie's Claim, L. R., 12 Eq. 246, 260. See, also, Glover v. North-western R. Co., 5 Ex. 66; 19 L. J. Ex. 172.

All acts of the board should be by resolutions of the board while sitting as such in consultation. Ross v. Crockett, La. Ann. 811.

bind the corporation unless there is an assent of all the directors at a meeting, or *perhaps*, separately obtained, or that there was a meeting and consultation of the whole board and a vote of the majority; or a meeting held at some regular period, at which a majority were present and acted by a majority vote; or a meeting regularly notified at which a majority assembled and acted by a majority vote. But doubts are expressed as to the validity of acts secured by the assent of directors separately obtained.[1]

SEC. 210. **Same continued.** — On the other hand it has been held that they might act separately, or that for some purposes at least they might act otherwise than at a board meeting.

Thus, the supreme court of Vermont observes: "The directors, in the absence of restrictions in the charter or by-laws, have all the authority of the corporation itself in the conduct of its ordinary business. And it is not important that this authority be conferred at an assembly of the directors unless that is the usual mode of their doing such acts. If they adopt the practice of giving a separate assent to the execution of contracts by their agents, it is of the same force as if done at a regular meeting of the board. If this were not so, it would lead to very great injustice, for it is notorious that the transactions of the ordinary business of railways, banks, and similar corporations in this country, is without any formal meetings or votes of the board. Hence there follows a necessity of giving effect to the acts of such corporations according to the mode in which they choose to allow them to be transacted." [2]

[1] Dispatch Line, etc. v. Bellamy Man. Co., 12 N. H. 205; Edgerly v. Emerson, 3 Fost. 555.

[2] Bank of Middlebury v. Rutland, etc., R. Co., 30 Vt. 159.

In a subsequent case in Vermont, where this doctrine was followed, the court say: "The question of law is simply this, whether in all cases a contract for services to the bank, concluded by two directors professing to act for the bank, and subsequently approved by a third, is unauthorized for want of a formal vote or conference with the other two members of the board. It is very true that there might be contracts of such a kind that the action of the board by formal vote would be essential to their validity. But, on the other hand, it is not necessary that the whole board should be consulted, or a vote taken upon every trifling detail of business. If a particular line of procedure has been resolved upon or is necessarily incident to the business of the bank, it is not essential that every expenditure of money, or engagement of service, or other item, within the line so marked out, should receive the consideration of all the directors outside a meeting, or that a meeting of them should act upon it." Bradstreet v. Bank of Royalton, 42 Vt. 128.

Sec. 211. **What constitutes a quorum.**— What number shall constitute a quorum of directors for the transaction of business is frequently if not generally, as we have before observed, fixed by the articles or by-laws of the association. And, where it was provided by the by-laws that the president and two directors should constitute a quorum, it was held that a majority of the quorum could bind the corporation; and that where, at a meeting of the president and two directors, the directors made a sale of lands of the company to the president, it was not invalid for the want of authority.

The supreme court of Iowa, after citing many authorities bearing upon the subject, say: "It follows then, in the light of these authorities, that since the president and two of the directors constituted a quorum, it was competent for two, being a majority of that quorum, to bind the corporation; and if two were able to act even as against the opposing vote of the other, they could, *a fortiori*, act without his concurrence. Again, the ordinary duties of the president are to preside, determine questions of order, give the casting vote in case of a tie, etc.; and since the vote of the directors was unanimous, there was no occasion or opportunity for the president to cast his vote, even if he had not been disqualified, and the contract of sale was made by just as many directors as were required by the by-laws, or as it was possible to have in the corporation as constituted." [1]

Sec. 212. **Same continued.** — The general rule is, that if a quorum, which is usually a majority of the whole number of directors, are present, a majority of that quorum may act. But this would perhaps be the rule only when the meeting was a regular one, of which all the members would be required to take notice, or if a special one, where all have been duly notified.

And where the directors consisted of seven persons, and only four of the seven were duly assembled, and the meeting was not a stated one, the court observed: "The meeting in question was not a stated meeting, nor a meeting at which all had been notified

[1] Per Cole, J., in Buel v. Buckingham Co., 16 Iowa, 284. See, also, Sargent v. Webster, 13 Metc. (Mass.) 497; *In re* Insurance Co., 22 Wend. 597; *Ex parte* Wilcox, 7 Cow. 402; Rex v. Monday, Cowper, 538; Sawyer v. Methodist Episcopal Church, 18 Vt. 405.

to be present. Four only of the seven directors were present and no others had been notified. The general principles applicable to joint powers are well settled. When individuals or corporations give an authority, jointly, to two or more persons, in order to bind the principal, all must act. But where a number of persons are by law intrusted with a power, not of mere private convenience, but in some respects of a general nature, and all of them are regularly assembled, the majority will conclude the minority, and their act will be the act of the whole. There are, however, many cases where an authority is granted to a board, or to several persons, or a majority of them, or a certain limited number, either more or less than a majority, who are thereby constituted a quorum. Thus, in the usual form of bank charters, there is a provision, that 'no less than four directors shall constitute a board for the transaction of business,' etc. The effect of this clause we deem the same as a provision, that the directors, or any four of them, shall be competent to transact any business of the bank. Four constitute a quorum, and, when assembled, possess all the powers of the entire board."[1]

SEC. 213. **Majority may act.**—Where three assessors were appointed under an English act for draining, but only two signed the appointment, but the other was present at all their meetings, it was held that the concurrence and signatures of the majority were sufficient.

In this case, Lord TENTERDEN observed: "Perhaps it may not be necessary that all should meet. In this case all three had met. Where it is granted by a charter, that a corporation shall have so many aldermen and so many capital burgesses, and that when one of the latter shall die, depart, or be removed, another shall be elected in his place by the 'mayor and aldermen,' and other capital burgesses then surviving or remaining, or a greater part of them, the election must be made by a majority of the full numbers of aldermen and of capital burgesses, and a mere minority of members of both bodies who happen to survive is not sufficient."[2]

SEC. 214. **The powers of directors.** — It may, perhaps, be safely affirmed as the settled law, that if the authority of the directors

[1] Per BELL, J., in Edgerly v. Emerson, 3 N. H. 556. See, also, Cram v. Bangor House, 12 Me. 359.

[2] Rex v. May, 4 B. & Ad. 843.

to manage and exercise a general superintendence and control over the affairs of the corporation is conferred by the fundamental law of its constitution, it is an original corporate power conferred on a definite number, and a majority of the whole number assembled at a regular meeting may act by a majority vote of those present; and that where the by-laws of a private corporation confer upon the directors the power to act for it, without special limitation as to the manner, a majority may act, within the scope of the authority given to them, and bind the corporation, either in case there is a consultation of all together and a concurrence of a majority, or where there is a regular meeting at which all might be present, and a majority actually meets and acts by a majority.

Sec. 215. **The mode of expressing assent by the directors.** — But where, by the fundamental laws, or the by-laws, of a corporation, the directors have power to act for the corporation, without limitation as to the manner, the assent of such directors should, usually at least, be expressed by a vote at a meeting on consultation of such directors, and the corporation be bound only by a majority of such directors thus assembled;[1] and to constitute such meeting a lawful one, it must be one either fixed by law at some definite time and place, or one lawfully called, and of which the directors were notified and a majority assembled; and when the act purports to be the act of the board of directors, it may be presumed to be the act of the majority, until the contrary is shown.[2]

Sec. 216. **Corporate meetings cannot be held outside the state.** — Some controversy has existed in reference to the right of corporators to hold corporate meetings outside the state where the corporation was created. We have already alluded to the fact that a corporation has a legal existence for most purposes, only in the state where constituted; and strictly corporate acts can only be performed in such state, though by the comity of states it may sue and be sued on contracts or for torts in other states; and also, through its agents, make contracts and do other acts within the scope of its powers, like natural persons, in any state.

[1] See *ante*, chap. 6.

[2] Dispatch Line, etc., v. Bellamy Manuf. Co., 12 N. H. 205.

But a distinction has been drawn in respect to the authority to hold meetings outside the state, between strictly corporate meetings, and meetings of the directors; and this distinction seems to be supported by at least a preponderance of authorities. The question of the right of a corporation to hold strictly corporate meetings outside the state where they are created, was recently presented to the supreme court of Maine. The facts were as follows: A meeting of the corporators was called to organize under its charter in the city of New York, at which meeting the charter was accepted and its officers elected; and the question presented was, whether the acts of the corporators were lawful. The court says: "If the directors of the corporation legally chosen might transact business as such by a vote of the board, at a meeting held in another state, and might authorize persons to execute a conveyance of real estate, yet it would be necessary to show that such persons were legally chosen directors, before any conveyance made by their direction would be considered as legally made. All votes and proceedings of persons professing to act in the capacity of corporators, when assembled without the bounds of the sovereignty granting the charter, are wholly void. The directors of a corporation are not a corporate body when acting as a board, but a board of officers or agents, and they may exercise their powers as agents beyond the bounds where the corporation exists. Whether the statute provisions of this state and the intention of the legislative power, or the general rule of law respecting corporations be examined, the conclusion must be the same: that this corporation could hold no meeting for the election of its officers, or for the regulation of its affairs without the limits of this state, and all such meetings and proceedings were without right or authority, and wholly void."[1]

The corporation can generally do no acts either within or without the state, except such as are expressly authorized by the or-

[1] Per SHEPLEY, J., in Miller v. Ewer, 27 Me. 517. See, also, Freeman v. Machias Water Power, etc., Co., 38 Me. 343; Aspinwall v. Ohio, etc., R. Co., 20 Ind. 497; Ormsby v. Vermont Copper Mining Co., 56 N. Y. 623; Merrick v. Brainard, 38 Barb. 574; S. C., 34 N. Y. 208; Smith v. Alvord, 63 Barb. 415; New York Floating Derrick Co. v. New Jersey Oil Co., 3 Duer, 648; Stoney v. American Life Ins. Co., 11 Paige, 635; Bard v. Poole, 12 N. Y. 495; Wood Hydraulic, etc., Co. v. King, 45 Ga. 34.

ganic law of its being, or to be fairly inferred from the powers granted, and the acts must be done in the manner and by the officers or agents indicated in such law. And if the organic law does not grant the authority, either expressly or by implication, to hold corporate meetings without the limits of the sovereignty creating it, it follows, that they could not thus lawfully meet, and any acts or contracts, attempted to be executed while thus met, would be *ultra vires* and absolutely void.[1]

Sec. 217. **Directors may hold meetings out of the state.** — In the absence of statutory provisions, or conditions in the organic law of corporations, the almost uniform current of authority is, that the directors of corporations may hold meetings of the board outside the limits of the state where it was constituted.[2] The directors of a corporation are not the corporation itself, and if they meet without the state of their creation, their proceedings will be valid, for in this respect they are like the agents of a natural person.[3]

[1] Bank of Augusta v. Earle, 13 Pet. 587. See, also, Hilles v. Parrish, 13 N. J. Eq. 380. It has been held in New York that the statute, relative to the observance of Sunday, does not apply to the proceedings of business meetings of corporate benevolent societies held on that day; and that such society meetings are not on that account illegal. People v. Young Men's etc., Soc., 65 Barb. 357.

[2] Bank of Augusta v. Earle, 13 Pet. 587. They are generally considered the agents of the corporation. "Natural persons, through the intervention of agents, are continually making contracts in countries in which they do not reside, and where they are not personally present when the contract is made, and nobody has ever doubted the validity of these agreements. And what greater objection can there be to the capacity of an artificial person by its agents, to make a contract within the scope of its limited powers, in a sovereignty in which it does not reside, provided such contracts are permitted to be made by them by the laws of the place? The corporation must, no doubt, show that the law of its creation gave it authority to make such contracts through such agents. Yet, as in the case of natural persons, it is not necessary that it should actually exist in the sovereignty in which the contract is made. It is sufficient that its existence as an artificial person, in the state of its creation, is acknowledged and recognized by the law of the nation where the dealing takes place, and that it is permitted by the laws of the place to exercise there the powers with which it is endowed. Every power, however, of the description of which we are speaking, which a corporation exercises in another state, depends for its validity upon the laws of the sovereignty in which it is exercised, and a corporation can make no vested contract without their sanction, express or implied." Id.

[3] Ohio, etc., R. Co. v. McPherson, 35 Mo. 13.

Although another state cannot create a corporation in New York, yet, it is no objection to the corporate acts of a foreign corporation, done in New York, that they are authorized by a board of directors held in the latter state, when the acts so done are not repugnant to the laws of the state. Smith v. Alvord, 63 Barb. 415.

Thus, where the directors of a corporation, created in Vermont, held a meeting in Massachusetts, and authorized the execution of a mortgage by an agent, and its validity was in question, the supreme court of Vermont said: "The conferring of authority by the directors of a corporation upon an agent to execute a deed is not a corporate act. The directors act in such a case not as a corporation, but as the agents of and in behalf of the corporation.

"And this authority may be conferred by a vote passed at a meeting of the directors without the state where the corporation was created and exists. * * * We have no occasion now to discuss or decide whether a corporation created in one state can legally hold a corporate meeting and pass corporate votes in another. There certainly seems to be strong reasons for holding that they cannot act in a strictly corporate capacity where they have no legal existence. But we do not regard this conferring authority by the directors upon an agent, to execute a deed, as being a corporate act, any more than any and every other act or contract they do or make on behalf of the corporation. It is a mere question of authority in the directors, and not one of corporate power; and when it is established that the power is vested in the directors, it cannot, with any more propriety, be said that they are performing a corporate act in conferring it, than in every other matter where they bind the company by their official agency as directors. They act, in neither case, as the corporation, but as the agents of and in behalf of the corporation." [1]

A contract with a corporation cannot be void because executed out of the state of its creation, for, although it seems well settled that a corporation cannot as such and in its corporate capacity hold meetings or transact business out of the sovereignty of its creation, or migrate to another sovereignty, and retain its legal existence as such, this does not prevent its directors or other agents from doing business within another sovereignty, for by the comity between states and nations they may sue and be sued, and may contract and be contracted with, through their agents, the same as natural persons.

"The mere place," observes the supreme court of Indiana,

[1] Arms v. Conant, 36 Vt. 744. See, also, Galveston R. Co. v. Cowdrey, 11 Wall. 476.

"where the active agents of a corporation enter into a contract, must in general be immaterial. The important question arising must be one of power, not of place. The exercise of power has relation to the place of their legal establishment, where the contract may be subsequently acted under. The meetings of directors of a business corporation are not analogous to the sessions of a judicial tribunal. The corporation is organized by the election of directors, but the mere organization of directors into a formal meeting for business afterward is quite a different thing. States cannot migrate, but by their agents they are daily making contracts without their territorial boundaries." [1]

Sec. 218. **Jurisdiction in equity to restrain by injunction.** — It is now a generally received doctrine that courts of equity have jurisdiction to enjoin corporate elections. The exercise of this power and the law upon this subject is, however, of modern origin. But, as we have already observed, the law relating to private corporations has been the growth largely of the present century, and due mainly to the rapid increase and vast importance of the various enterprises which have called them into existence. Courts of equity, in the exercise of their legitimate functions, have adapted their remedies to meet the requirements occasioned by the growth of various business interests and the complications of modern enterprises; and in modern times, in the exercise of its powers, it has assumed to control the elections of private corporations where the principles of equity seemed to require it. This power of the courts of equity jurisdiction has been recognized in this country,[2] and a succession of decisions have firmly established this jurisdiction of the courts.[3]

[1] Wright v. Bunday, 11 Ind. 404.

[2] Haight v. Day, 1 Johns. Ch. 18 (1814).

[3] Walker v. Devereaux, 4 Paige, 229 (1833); Campbell v. Poultney, 6 G. & J. 94; Hilles v. Parish, 13 N. J. Eq. 380; Webb v. Ridgely, 38 Md. 364; Brown v. Pacific Mail Steamship Co., 5 Blatchf. (C. C.) 525. In the case of Walker v. Devereaux, above cited, Chancellor Walworth observes: "This court unquestionably has the power to prevent this election by an injunction operating upon the commissioners, restraining them from acting as inspectors of the election. And in a case of imperious necessity, where the complainant did not know and could not ascertain the names of the other stockholders, I might consider it my duty to prevent a great and irreparable injury to him, although the effect of that interference might be to destroy the charter of the corporation. But in the exercise of such a power the court should require ample security from the complainant to pay all damages other persons might sus-

Although the right to restrain the holding of corporate meetings seems to be fully recognized in the cases cited in the notes, the exercise of this restraining power has been usually exercised to restrain parties from casting illegal votes at such elections.

But, in Wisconsin, in a case where a complaint was filed by a minority of the directors of a railroad company against the majority and one Jones, a stockholder, charging the directors with having fraudulently conspired to obtain absolute control of the affairs of the company; with having fraudulently caused capital stock to be issued to a large amount, for the purpose of using the vote upon such stock for furthering their fraudulent purposes at the election; with having caused, by resolution, the subscription book of the company to be closed until after the election, in order to prevent *bona fide* subscriptions to the stock, which might change the result of the election; that such stockholder, Jones, intended to vote on stock which he had fraudulently received from the company, under an agreement with it to convey to it certain lands, to a portion of which he was unable to give a good title; and that the corporation was entitled to a return of such shares, in proportion as such defendant failed to furnish the title to such lands. A preliminary injunction which was granted was dissolved by the court below, and an appeal was taken to the supreme court of that state, where the jurisdiction of the court in the matter was not questioned, but the judgment of the court below was sustained on other grounds. The opinion of the court was delivered by Mr. Justice COLE, who observes: "Now, upon general principles, it would seem improper and most mischievous to grant an injunction upon the complaint of a minority of the board of directors to restrain a stockholder from voting upon an alleged excess of stock held by him, before the company had taken any steps to cancel the stock or declare it void. We have

tain by the granting of the injunction, if it should be subsequently ascertained that it was not warranted by the real facts of the case. The oath of the complainant that he is informed and believes the existence of a fact may be sufficient ground to authorize the issuing of an injunction against a defendant who has had an opportunity to deny the allegation if it is unfounded, but it is not sufficient to justify the court in destroying or injuring the rights of others who have not had an opportunity of being heard by themselves, or by those who are under a legal obligation to protect their rights."

not been referred to any case where an interposition of the court by injunction has been exercised for such purpose, and after some research we have been able to find none. But from the allegations of this complaint, it is not easy to perceive how it would produce irreparable and permanent injury to the company, as plaintiffs, even if Jones should vote upon this alleged excess of stock. The complaint fails to show that imminent danger to the property of the plaintiffs is treated by the contemplated acts, nor does it present any other sufficient ground or reason for arresting or restraining him from voting upon this stock." [1]

[1] Reed v. Jones, 6 Wis. 680 (1857). See, also, *post*, as to injunction, § 408.

CHAPTER IX.

CORPORATE CONTRACTS.

SEC. 219. The power to contract, a corporate incident; construction of the power.
SEC. 220. Mode of exercising the power.
SEC. 221. Incidental powers of a corporation.
SEC. 222. Cases illustrating the subject.
SEC. 223. Contracts relating to bailments.
SEC. 224. What would and what would not be within the scope of an agent's authority, in cases of bailments.
SEC. 225. Place of contracting by the corporation.
SEC. 226. Place of contracting by directors.
SEC. 227. Corporate bills and notes; negotiable quality of corporate bonds.
SEC. 228. Coupons; their incidents and qualities.
SEC. 229. Ultra vires; doctrine of.
SEC. 230. Different senses in which the term is used.
SEC. 231. Are all contracts void, entered into by corporations, beyond the powers conferred upon them?
SEC. 232. Same continued.
SEC. 233. Distinction between executed and unexecuted contracts, in relation to ultra vires.
SEC. 234. Same continued.
SEC. 235. When neither party can avoid a contract, although ultra vires.
SEC. 236. Same continued.
SEC. 237. Form of action, in case of ultra vires contracts.
SEC. 238. The doctrine of ultra vires applied to agents.
SEC. 239. The doctrine of ultra vires, in cases of negotiable instruments.
SEC. 240. Necessary or implied powers, not ultra vires.
SEC. 241. Conclusion as to ultra vires contracts.

SEC. 219. **The power to contract, a corporate incident; construction of the power.** — We have noticed that it was one of the incidental powers of a corporation at common law to make contracts the same as natural persons, being limited in this respect only by the general laws, or its fundamental laws, or the provisions of the constating instruments.[1] This right embraces also all matters that

[1] Barry v. Merchants' Exch. Co., 1 Sandf. Ch. 280; Brady v. Mayor, etc., 1 Barb. 584. In Barry v. Merchants' Exch. Co., *supra*, SANFORD, V. C., observes: "Every corporation, as such, has the capacity to take and grant property, and to contract obligations the same as an individual. * * * And every such corporation has power to make all contracts which are necessary and usual in the course of the business it transacts, as a means to enable it to effect such object, unless expressly prohibited by law."

are not only within the express provisions of these laws and instruments, but also the right to contract, in reference to all matters and to any extent that comes within the scope of the authority, as conferred by such laws and instruments, on a fair construction of the same, they being interpreted in view of the objects and purposes of its creation. The power to make contracts and to sue and be sued thereon is usually conferred in general terms in the incorporating act. But where the power is conferred in this manner it is not to be construed as authorizing the making of contracts of all descriptions, but only such as are necessary and usual, and fit and proper to enable the corporation to secure or carry into effect the purposes for which it was created, and the extent of the power will depend upon the other provisions of the charter defining matters in respect to which the corporation is authorized to act. To the extent necessary to execute the special powers and functions with which it is endowed by its charter, there is indeed without special authority an implied incidental authority to contract obligations and sue in the corporate name,[1] in reference to any and every matter necessary or pertaining even to the business for the prosecution of which it was created.[2] The rule may be stated to be that when the charter or act of incorporation, or the statutory law, imposes no restraint, and is silent as to what contracts it may make, it has general power, as a general rule, to make all such contracts as are necessary or usual in the course of its business, as a means to enable it to attain the object for which it was created, and none other,[3] and like an individual is not only bound by, but may take the benefit of the general laws where it is within the reason of them, unless there be particular modifications in the charter, and their

[1] 1 Kyd on Corp. 69; 2 Kent's Com. 224; Chaffee v. Granger, 6 Mich. 51; Douglas v. Virginia City, 5 Nev. 147; Goodrich v. Detroit, 12 Mich. 279; Bank of Columbia v. Patterson, 7 Cranch, 299; Seibrecht v. New Orleans, 12 La. Ann. 496; Galena v. Commonwealth, 48 Ill. 423; Strauss v. Ins. Co., 5 Ohio St. 59; Bateman v. Mayor, etc., 3 H. & N. 322; Rome v. Cabot, 28 Ga. 50; Hale v. Houghton, 8 Mich. 458; Miller v. Milwaukee, 14 Wis. 642.

[2] Strauss v. Eagle Ins. Co., 5 Ohio St. 59; Wickler v. First Nat. Bank, 42 Md. 581; Brooklyn Grand Road Co. v. Slaughter, 33 Ind. 185.

[3] Broughton v. Manchester Waterworks Co., 3 B. & Ald. 1; Old Colony R. R. Co. v. Evans, 6 Gray, 25; Sturtevant v. Alton, 3 McLean, 393; Dunning v. North-western Turnpike Road Co., 6 Gratt. 160.

rights and contracts are equally protected by the general or common law and all its processes and remedies.[1]

SEC. 220. **Mode of exercising the power.** — The will or assent of the corporation can be expressed only by the voice of the majority, or in case of joint-stock corporations, by the will of those holding a majority of the shares of the capital stock. We have also noticed, that the power of the corporate body in this respect, and generally, for the control and management of the corporate business, is vested in a board of directors, and that where such is the case, the majority, or a quorum of them, may express the corporate will or assent in the same manner as where the authority rests with the body of the corporators. In this way contracts on the part of the corporation may be either directly assented to, or authority expressly conferred upon agents for this purpose. And this authority thus conferred may be evidenced by an instrument in writing signed by the president and secretary and authenticated with the common seal annexed or stamped upon the instrument. But this is not essential except in those cases where the execution of the powers conferred upon the agent are required to be by instrument under seal, in which case the authority must be under seal.[2] It is sufficient in order to bind the corporation to show

[1] State Bank v. Cape Fear Bank, 13 Ired. L. 75. A corporation, unless prohibited by its charter, has the power to borrow money to accomplish the purposes for which it was formed. Union Mining Co. v. Rocky Mt. Nat. Bank, 2 Cal. 248; Moss v. Haspeth Academy, 7 Heisk. 283.

[2] A parol authority will support a written contract made by an agent. Welch v. Hoover, 5 Cranch, 444; Webb v. Browning, 14 Mo. 354; Bank of America v. Embury, 33 Barb. 323; 21 How. Pr. 14; or authorize the performance of any act which is not of such a nature as to require that it should be done under seal. A contract to sell land may be valid, and may transfer the equitable title, although the writing, which evidences the contract, may not be under seal; Ledbetter v. Walker, 31 Ala. 175; Johnson v. McGruder, 15 Mo. 365; Doughaday v. Crowell, 11 N. J. Eq. 201; or to authorize an agent to pay or tender money for his principal, to redeem land sold for taxes; Gracie v. White, 18 Ark. 17; or to authorize an agent to sign the grantor's name to a bill of sale of a mining claim, if the grantor had previously agreed with the grantee as to the terms of the sale, Patterson v. Keystone, etc., Co., 30 Cal. 360; or to execute simple contracts, may be by parol. Stackpole v. Arnold, 11 Mass. 27; Emerson v. Providence Manuf. Co., 12 id. 237; New Eng. Ins. Co. v. DeWolf, 8 Pick. 56; Shaw v. Nudd, id. 9; Small v. Owings, 1 Md. Ch. 363. But an authority under seal is necessary to authorize an agent to sign a sealed instrument. Rowe v. Ware, 30 Ga. 278; Mans v. Worthing, 4 Ill. 26; Rhode v. Loutham, 8 Blackf. 413; McMenty v. Frank, 4 T. B. Monr. 39; Mitchell v. Sproul, 5 J. J. Marsh. 264; Wheeler v. Nevins, 34 Me. 54; Baker v. Freeman, 35 id. 485; Shuetze v. Bailey, 40 Mo. 69;

that the corporate assent is given, and this may be given as above stated. The formal execution of an instrument by the president and secretary as such officers on behalf of the corporation and authenticated by the common seal may be convenient and desirable as evidence, but it is not usually essential.[1]

Contracts are executed for the corporation by some authorized agent. The requirements of the law to constitute a valid contract in respect to the form and mode of its execution, applicable in case natural persons are the contracting parties, are usually equally applicable to corporations. If a verbal contract, relating to the same subject, would be good between private persons, it would be good between corporations, or between them and private persons or copartnerships. If, under the same circumstances, the contract should be in writing, it would be necessary in case a corporation was a party. If it should be under seal, if natural persons only were parties to it, under like circumstances it should be under seal where a corporation is a party. But if the mode of the execution of contracts is prescribed by the statute as the fundamental law of the institution, that mode should be followed.

On this subject, Marshall, C. J., observes: "The act of incorporation is to them an enabling act; it gives them all the power they possess; it enables them to contract, and when it prescribes to them a mode of contracting, they must observe that mode, or

Smith v. Perry, 29 N. J. L. 74; King v. Brooks, 9 Ired. (N. C.) L. 218; Cain v. Heard, 1 Coldw. (Tenn.) 163; Hanford v. M'Nair, 9 Wend. (N. Y.) 54; Gordon v. Bulkley, 14 Serg. & R. (Penn.) 331; Blood v. Goodrich, 9 Wend. (N. Y.) 68; Cooper v. Rankin, 5 Binn. 613: Banorgee v. Hovey, 5 Mass. 11.

[1] Fanning v. Gregoire, 16 How. (U. S.) 524; Abby v. Billups, 35 Miss. 618; Alton v. Mulledy, 21 Ill. 76; Western, etc., Society v. Philadelphia, 31 Penn. St. 175; Clark v. Washington, 12 Wheat. 40; Hamilton v. Railroad Co., 9 Ind. 359; Ross v. Madison, 1 id. 281; Story on Agency, § 52.

"In our own country where private corporations for literary, religious and commercial purposes have been multiplied beyond any former example, their facility in acting and contracting is involved with public prosperity itself; and after mature consideration, the old technical rule has been condemned as impolitic and essentially discarded. Indeed it seems to result from the very structure of these artificial beings that inasmuch as there are two general modes in which they may express their assent, there are two general modes in which they expressly contract, first by vote and secondly by their duly authorized agents." Aug. & Am. on Corp., § 228. And this was the doctrine of the civil law. Ayliffe's Civ. L. Sup., 12, 1, 22. See, also, Fleckner v. U. S. Bank, 8 Wheat. 357; Union Springs Co. v. Jenkins, 1 Caines, 381.

the instrument no more creates a contract than if the body had never been incorporated." [1]

Where the acts incorporating an insurance company provided that all policies and other instruments to bind the company must be signed by the president or some other officer, it was held that a contract to cancel a policy should be signed by the president or other of its officers.[2] But where the charter of a bank provided that all contracts on behalf of the bank should be signed by the president and countersigned by the cashier, and that the funds of the bank should not be liable on any contract or engagement, unless so signed, it was held that the provision did not cover contracts implied in law; and that a recovery might be had against the bank, for money advanced upon a check, signed by the cashier, only, but made in the usual course of its business.[3] So, it has been held, that a bank, authorized by its charter to contract in a particular way, may nevertheless be liable on instruments executed in a different mode, where such a course has been commonly pursued by the bank, such provisions being considered merely directory.[4]

SEC. 221. **Incidental powers of a corporation.** — It is a familiar doctrine that corporations possess not only such powers as may be expressly conferred, but also such as are to be reasonably inferred from those expressly granted, and necessarily required in the prosecution of the objects and purposes of the corporation.[5] These incidental powers are such as are necessary for the purpose of carrying into effect the powers expressly granted.[6] But the powers

[1] Head v. Insurance Company, 2 Cranch, 127; Fanning v. Gregoire, 16 How. 524; White v. New Orleans, 15 La. Ann. 667; Dey v. Jersey City, 19 N. J. Eq. 412; Baltimore v. Reynolds, 20 Md. 1; Matthews v. Skinker, 62 Mo. 329.

[2] Id. See, also, Davis v. North River Ins. Co., 1 Cow. 462, Hill v. Manchester Water-Works Co., 2 Hen. & M. 573; 5 B. & Ad. 866; Safford v. Wyckkoff, 4 Hill, 446.

[3] Mechanics' Bank v. Bank of Columbia, 5 Wheat. 326.

[4] Bulkley v. Derby Fishing Company, 2 Conn. 254.

See further as to matters in charters, which are treated as merely directory, Mott v. U. S. Trust Company, 19 Barb. 568; Union Ins. Co. v. Keyes, 32 N. H. 313.

[5] Morris R. Co. v. Newark, 10 N. J. Eq. 352; Dartmouth College v. Woodward, 4 Wheat. 636; Beach v. The Fulton Bank, 3 Wend. 583; Green's Brice's Ultra Vires, 28 *et seq.*

[6] Bank of Augusta v. Earle, 13 Pet. 519; Dartmouth College v. Woodward, 4 Wheat. 636; Trustees v. Peaslee, 15 N. H. 330; Downing v. Mt. Washington R. Co., 40 id. 231; People v. Utica Ins. Co., 15 Johns. 357; Le

claimed as incidental must be such as are directly and immediately appropriate to the execution of the specific power granted, and not merely such as have slight or remote relation to it.[1] Nor is the power or grant to be construed to carry as incident any authority to agents, not possessed by the principal, nor actually appurtenant to the business, or of a similar character.[2] It is also a rule of construction of corporate statutes and constating instruments, that they must be construed strictly, and most strongly against the grantee and in favor of the public. And this will be determined from the language of such statutes and instruments, and not from some possible intentions of their framers. But the language must be reasonably construed to carry out the general purposes of the legislature, and of the framers of the instruments.[3]

Conteulx v. City of Buffalo, 33 N. Y. 333; Railroad v. Seeley, 45 Mo. 220; Vandall v. S. S. F., etc., Co., 40 Cal. 83; Shawmut Bank v. Plattsburgh, etc., R. Co., 31 Vt. 491; Mobile, etc., R. Co. v. Franks, 41 Miss. 494.

[1] Hood v. New York, etc., R. Co., 22 Conn. 1; Curtis v. Leavitt, 15 N. Y. 157; Buffett v. Troy, etc., R. Co., 40 N. Y. 176.

[2] Beaty v. Knowler, 4 Pet. 152. See, also, Colman v. Eastern, etc., R. Co., 10 Beav. 1; Salomons v. Laing, 12 id. 339; Eastern, etc., R Co. v. Eastern, 11 C. B. 775; Shrewsbury, etc., R. Co. v. London, etc., R. Co., 22 L. J. Ch. 682.

[3] Charles River Bridge v. Warren Bridge, 11 Pet. 420; Providence Bank v. Billings, 4 id. 514; Perrine v. Chesapeake, etc., Canal Co., 9 How. 172; Richmond R. Co. v. Louisa. R. Co., 13 id. 71; Pennock v. Coe, 23 id. 117; Rice v. Railroad Co., 1 Black. 358; Delaware Tax Cases, 18 Wall. 206; Auburn Plankroad Co. v. Douglass, 9 N. Y. 444; Rensselaer, etc., R. Co. v. Davis, 43 id. 137; In re New York, etc., R. Co. v. Kip, 46 id. 546; Black v. United Cos., 22 N. J. Eq. 130; S. C., 9 id. 455; Bradley v. New York, etc., R. Co., 21 Conn. 294; Mohawk Bridge Co. v. Utica, etc., R. Co., 6 Paige, 554; C. & A. R. Co. v. Briggs, 22 N. J. L. 623; Townsend v. Brown, 4 id. 80; Wright v. Carter, 27 id. 76; Bridge Prop. v. Hoboken, etc., Co., 13 N. J. Eq. 81; S. C., 1 Wall. 116; Bardstown, etc., R. v. Metcalfe, 4 Metc. (Ky.) 199; Bank v. Commonwealth, 19 Penn. St. 144; Penn., etc., R. Co. v. Canal Coms., 21 id 9; Commissioners v. Erie, etc., R. Co., 27 id. 339.

A banking institution, created in one state, may through its agents deal in exchange in another, provided there is nothing in the charter to restrict such action within the state where created. This right is among its incidental powers. In Bank of Augusta v. Earle, *supra*, Chief Justice Taney observed: "It may be safely assumed that a corporation can make no contracts, and do no acts either within or without the state which creates it, except such as are authorized by its charter; and those acts must also be done, by such officers or agents, and in such manner, as the charter authorizes. And if the law creating a corporation does not, by the true construction of the words used in the charter, give it the right to exercise its powers beyond the limits of the state, all contracts made by it in other states would be void.

"The charter of the Bank of Augusta authorizes it, in general terms, to deal in bills of exchange; and, consequently, gives it the power to purchase foreign bills as well as inland; in other words, to purchase bills payable in another state. The power thus given clothed the corporation with the right to make contracts out of the

SEC. 222. **Cases illustrating the subject.**—It has been held that corporations for railroad purposes have implied authority to erect

state, in so far as Georgia could confer it. For whenever it purchased a foreign bill, and forwarded it to an agent to present for acceptance, if it was honored by the drawee, the contract of acceptance was necessarily made in another state; and the general power to purchase bills without any restriction as to place, by its fair and natural import, authorizes the bank to make such purchases, wherever it was found most convenient and profitable to the institution. And also to employ suitable agents for that purpose. The purchase of the bill in question was, therefore, the exercise of one of the powers which the bank possessed under its charter; and was sanctioned by the law of Georgia creating the corporation, so far as that state could authorize a corporation to exercise its powers beyond the limits of its own jurisdiction.

"But it has been urged in the argument, that notwithstanding the powers thus conferred by the terms of the charter, a corporation, from the very nature of its being, can have no authority to contract out of the limits of the state; that the laws of a state can have no extra-territorial operation; and that as a corporation is the mere creature of a law of the state, it can have no existence beyond the limits in which that law operates; and that it must necessarily be incapable of making a contract in another place.

"It is very true that a corporation can have no legal existence out of the boundaries of the sovereignty by which it is created. It exists only in contemplation of law, and by force of the law; and where that law ceases to operate, and is no longer obligatory, the corporation can have no existence. It must dwell in the place of its creation, and cannot migrate to another sovereignty. But although it must live and have its being in that state only, yet it does not by any means follow that its existence there will not be recognized in other places; and its residence in one state creates no insuperable objection to its power of contracting in another. It is indeed a mere artificial being, invisible and intangible; yet it is a person for certain purposes in contemplation of law, and has been recognized as such by the decisions of this court It was so held in the case of The United States v. Amedy, 11 Wheat 412, and in Beaston v. The Farmers' Bank of Delaware, 12 Peters, 135. Now, natural persons, through the intervention of agents, are continually making contracts in countries in which they do not reside; and where they are not personally present when the contract is made; and nobody has ever doubted the validity of these agreements. And what greater objection can there be to the capacity of an artificial person, by its agents, to make a contract within the scope of its limited powers, in a sovereignty in which it does not reside; provided such contracts are permitted to be made by them by the laws of the place?

The corporation must no doubt show that the law of its creation gave it authority to make such contracts, through such agency. Yet, as in the case of a natural person, it is not necessary that it should actually exist in the sovereignty in which the contract is made. It is sufficient that its existence as an artificial person, in the state of its creation, is acknowledged and recognized by the law of the nation where the dealing takes place; and that it is permitted by the laws of that place to exercise there the powers with which it is endowed.

"Every power, however, of the description of which we are speaking, which a corporation exercises in another state, depends for its validity upon the laws of the sovereignty in which it is exercised; and a corporation can make no valid contract without their sanction, express or implied. And this brings us to the question which has been so elaborately discussed, whether, by the comity of nations and between these states, the corporations of one state are permitted to make contracts in another. It is needless to enumerate here the instances in which, by the general practice of civilized countries, the laws of the one will, by the comity of nations, be recognized and executed in another, where the right of individuals is con-

refreshment rooms;[1] that a corporation authorized to erect a market or buildings for any purpose can purchase land on which to erect the same; and an authority granted to borrow money,

cerned. The cases of contracts made in a foreign country are familiar examples; and courts of justice have always expounded and executed them according to the laws of the place in which they were made, provided that law was not repugnant to the laws or policy of their own country. The comity thus extended to other nations is no impeachment of sovereignty. It is the voluntary act of the nation by which it is offered; and is inadmissible when contrary to its policy, or prejudicial to its interests. But it contributes so largely to promote justice between individuals, and to produce a friendly intercourse between the sovereignties to which they belong, that courts of justice have continually acted upon it, as a part of the voluntary law of nations. It is truly said, in Story's Conflict of Laws, 37, that 'In the silence of any positive rule, affirming, or denying, or restraining the operation of foreign laws, courts of justice presume the tacit adoption of them by their own government; unless they are repugnant to its policy, or prejudicial to its interest. It is not the comity of the courts, but the comity of the nation which is administered, and ascertained in the same way, and guided by the same reasoning by which all other principles of municipal law are ascertained and guided.'

"Adopting, as we do, the principle here stated, we proceed to inquire whether, by the comity of nations, foreign corporations are permitted to make contracts within their jurisdiction; and we can perceive no sufficient reason for excluding them, when they are not contrary to the known policy of the state, or injurious to its interests. It is nothing more than the admission of the existence of an artificial person created by the law of another state, and clothed with the power of making certain contracts. It is but the usual comity of recognizing the law of another state. In England, from which we have received our general principles of jurisprudence, no doubt appears to have been entertained of the right of a foreign corporation to sue in its courts; since the case of Henriquez v. The Dutch West India Company, decided in 1729, 2 Ld. Raym. 1532. And it is a matter of history, which this court are bound to notice, that corporations, created in this country, have been in the open practice, for many years past, of making contracts in England of various kinds, and to very large amounts; and we have never seen a doubt suggested there of the validity of these contracts, by any court or any jurist. It is impossible to imagine that any court in the United States would refuse to execute a contract, by which an American corporation had borrowed money in England; yet if the contracts of corporations, made out of the state by which they were created, are void, even contracts of that description could not be enforced.

"It has, however, been supposed that the rules of comity between foreign nations do not apply to the states of this Union; that they extend to one another no other rights than those which are given by the Constitution of the United States; and that the courts of the general government are not at liberty to presume, in the absence of all legislation on the subject, that a state has adopted the comity of nations toward the other states, as a part of its jurisprudence; or that it acknowledges any rights but those which are secured by the Constitution of the United States. The court think otherwise. The intimate union of these states, as members of the same great political family; the deep and vital interests which bind them so closely together, should lead us, in the absence of proof to the contrary, to presume a greater degree of comity, and friendship, and kindness toward one another, than we should be author-

[1] Flanagan v. Great Western R. Co., L. R., 7 Eq. 116. See, also, Clark v. Cuckfield Union, 21 L. J. Q. B. 349.

upon such terms as may be agreed upon between the parties, is an authority to pay interest thereon, even beyond the sum authorized by law, or secure its payment by a mortgage upon its property.[1]

So, a banking corporation would, in the absence of limitations, have power to perform the ordinary business of banking, and, of course, to take negotiable paper.[2] The rule that a corporation

ized to presume between foreign nations. And when, as without doubt must occasionally happen, the interest or policy of any state requires it to restrict the rule, it has but to declare its will, and the legal presumption is at once at an end. But until this is done, upon what grounds could this court refuse to administer the law of international comity between these states? They are sovereign states; and the history of the past, and the events which are daily occurring, furnish the strongest evidence that they have adopted toward each other the laws of comity in their fullest extent. Money is frequently borrowed in one state by a corporation created in another. The numerous banks established by different states are in the constant habit of contracting and dealing with one another. Agencies for corporations engaged in the business of insurance and of banking have been established in other states, and suffered to make contracts without any objection on the part of the state authorities. These usages of commerce and trade have been so general and public, and have been practiced for so long a period of time, and so generally acquiesced in by the states, that the court cannot overlook them when a question like the one before us is under consideration. The silence of the state authorities, while these events are passing before them, show their assent to the ordinary laws of comity which permit a corporation to make contracts in another state. But we are not left to infer it merely from the general usages of trade, and the silent acquiescence of the states. It appears from the cases cited in the argument, which it is unnecessary to recapitulate in this opinion, that it has been decided in many of the state courts, we believe in all of them where the question has arisen, that a corporation of one state may sue in the courts of another. If it may sue, why may it not make a contract? The right to sue is one of the powers which it derives from its charter. If the courts of another country take notice of its existence as a corporation, so far as to allow it to maintain a suit, and permit it to exercise that power, why should not its existence be recognized for other purposes, and the corporation permitted to exercise another power which is given to it by the same law and the same sovereignty — where the last-mentioned power does not come in conflict with the interest or policy of the state? There is certainly nothing in the nature and character of a corporation which could justly lead to such a distinction; and which should extend to it the comity of suit, and refuse to it the comity of contract. If it is allowed to sue, it would of course be permitted to compromise, if it thought proper, with its debtor; to give him time; to accept something else in satisfaction; to give him a release; and to employ an attorney for itself to conduct its suit. These are all matters of contract, and yet are so intimately connected with the right to sue, that the latter could not be effectually exercised if the former were denied."

[1] Barry v. Merch'ts' Exchange, 1 Sandf. Ch. 280; Morrison v. Eaton, etc., R. Co., 14 Ind. 110.

[2] Dill. on Mun. Corp., § 407, citing McCollough v. Moss, 5 Denio, 567; Straus v. Eagle Ins. Co., 5 Ohio, 59; Mott v. Hicks, 1 Cow. 513; Attorney-General v. Insurance Co., 9 Paige, 470; 2 Kent's Com. 299; 1 Pars. on N. and B. 165; Clark v. Des Moines, 19 Iowa, 213;

has authority to do any act essential to effectuate the purposes for which it was established, is well settled. Thus, where a corporation is authorized to build a plankroad, it was held that the act conferred an implied power upon the corporation to borrow money necessary for the purposes of such construction, and to issue its bonds therefor.[1] So a religious corporation, empowered by its charter to build and to hold property, has an implied power to borrow money for that purpose,[2] and generally it may be said that manufacturing, trading or any business corporations have power to raise money by loan as necessarily incident to their power to purchase stock and materials; and as incident to the power to purchase and borrow, they have authority to pledge the property of the corporation as security.[3] The power to purchase property necessarily carries with it the power to purchase on credit and give the necessary obligations therefor, else the power would be useless.[4] And it would appear to be a generally recognized doctrine that private corporations for pecuniary gain have incidental authority to borrow money for the legitimate purposes of their business, unless restricted from so doing by the organic laws of their creation; and that they may give the usual obligations therefor.[5] Especially is this the case where they are authorized to borrow money, because the giving of an obligation, and even security for a loan, is one of the necessary incidents of this exercise of such a power.

In determining the question of corporate powers in relation to the execution of a contract, it is proper to consider, first, whether there is any thing in the charter or statutes under which it is con-

Barry v. Merchants' Express Co., 1 Sandf. Ch. 280; Curtis v. Leavitt, 15 N. Y. 9; Smith v. Law, 21 id. 296; Bank, etc., v. Chillicothe, 7 Ohio, part 2, 31; Ketchum v. Buffalo, 14 N. Y. 356; Douglas v. Virginia City, 5 Nev. 147; Cane v. Brigham, 39 Me. 39; Goodnow v. Commissioners, 11 Minn. 31.

[1] Ketchum v. City of Buffalo, 14 N. Y. 356.

[2] Davis v. Proprietors, etc., in Lowell, 8 Metc. (Mass.) 321.

[3] Fay v. Noble, 12 Cush. (Mass.) 1.

[4] Barry v. Merchants' Exchange Bank, 1 Sandf. Ch. 280.

[5] Stratton v. Allen, 16 N. J. Eq. 229; Union Mining Co. v. Rocky Mountain Nat. Bank, 2 Col. T. 248; Burns v. Phenix Glass Co., 14 Barb. 358; Partridge v. Badger, 25 id. 146; Mead v. Veeder, 24 id. 30; Lucas v. Pitney, 27 N. Y. 221; Mobile & Cedar Point R. R Co. v. Talman, 15 Ala. 472; Moss v. Haspeth Academy, 7 Heisk. 283.

stituted which forbids or permits it to make such a contract; and if these are silent on the subject; second, whether the power to make such a contract may not be implied as directly or incidentally necessary to enable it to fulfill the purposes of its existence, or whether the contract is entirely foreign to that purpose.[1]

SEC. 223. **Contracts relating to bailments.** — The general principles and doctrines of the law of bailments, where individuals only are parties to the contract, are equally applicable where a corporation is the bailee.[2] A full consideration of the liability of corporations in such cases would not be consistent with the limits of this treatise. Most of the important questions on this subject, affecting corporations, relate to railroad corporations, which are the subject of special treatises.[3] But in relation to the duties and liabilities in general of bailees, there are also special treatises which may be consulted.[4] The liability in such cases would, of course, depend upon the nature and character of the bailment. It may, however, be proper to refer to some of the more common cases of liability, for the acts of agents of a corporation in cases of bailment. In respect to the liability of the principal in such

[1] Barnes v. Ontario Bank, 19 N. Y. 152; Curtis v. Leavitt, 15 id. 9; Leavitt v. Blatchford, 17 id. 521; Weckler v. First National Bank, 42 Md. 581.

On the subject of the construction of statutes of incorporation the supreme court of Pennsylvania observe: "When a state means to clothe a corporate body with a portion of her own sovereignty, and to disarm herself to that extent of the power that belongs to her, it is so easy to say so, that we will never believe it to be meant when it is not said. * * * In the construction of a charter, to be in doubt is to be resolved; and every resolution which springs from doubt is against the corporation." Pennsylvania R. Co. v. Canal Commrs., 21 Penn. St. 22.

And on the same subject the supreme court of Connecticut say: "The rules of construction which apply to general legislation in regard to those subjects in which the public at large are interested are essentially different from those which apply to private grants to individuals of powers or privileges designed to be exercised with special reference to their own advantage, although involving in their exercise incidental benefits to the community generally. The former are to be expounded largely and beneficially for the purposes for which they were enacted; the latter liberally, in favor of the public, and strictly as against the grantees. The power in the one case is original and inherent in the state or sovereign power and is exercised solely for the general good of the community; in the other, it is merely derivative, is special if not exclusive in its character, and is in derogation of common right, in the sense that it confers privileges to which the members of the community at large are not entitled." Bradley v. New York, etc., R. Co., 21 Conn. 306.

[2] Foster v. Essex Bank, 17 Mass. 496.

[3] See Redfield on Railways; Bonney's Am. Ry. Cas.; Pierce on Railways; Lacy's Dig. R. Cas.

[4] See Story on Bailments; Edwards on Bailments; Redfield on Bailments.

cases, it may be affirmed, as a general rule, that he is liable in all cases where the business is transacted by an agent, if such agent acts in the matter, within the scope of the authority conferred upon him; and the practice or custom of the agent, to act in a particular business for the corporation, and with the knowledge and approbation of the principal, would furnish evidence, in that respect, of his authority to act, generally, in a similar matter.

Sec. 224. **What would and would not be within the scope of an agent's authority in case of bailments.** — An illustration of what is within the scope of the authority of an agent may be found in the business of banking. If a party deposits with a bank and receives from the cashier or other proper agent or officer a certificate of his deposit, he should, in the usual course of business, receive a credit for such deposit, and if such moneys should afterward be fraudulently or feloniously appropriated or taken by such officer or agent, or other persons, the bank would be liable for the deposit, as it would be within the scope of the authority of such officer or agent to receive and credit the same; but, if such person should, by a personal and private arrangement with such cashier or other officer or agent, make a special deposit of money with him, from which the bank could receive no benefit, this would not be within the usual scope of his authority; and if such agent should fraudulently or feloniously abstract such special deposit from the vaults of the bank, without the gross negligence of the bank, it would not be liable therefor.

In a case of this character the supreme court of Massachusetts say: "The bank was no more liable for this act of his (the cashier) than they would be if he had stolen the pocket-book of any person who might have laid it upon the desk while he was transacting some business at the bank."[1] But in this case the agent did not act for the bank, nor bind the bank by any valid contract in reference to the deposit. The officer, however, would be personally liable for the conversion. And the bank would also be liable for the conversion if the act was authorized.[2] The general

[1] Foster v. Essex Bank, 17 Mass. 479. See, also, Manhattan Co. v. Lydig, 4 Johns. 377; Union Bank v. Knapp, 3 Pick. 96; Fulton Bank v. New York Canal Co., 4 Paige, 127.

[2] See *post*, chap. 12.

principles of the law of agency are applicable to corporations; as for instance, where a note or other negotiable instrument is left with a bank for collection. It would be the duty of the bank to use due care and diligence in procuring a demand to be made of parties liable thereon, and giving notice to the indorsers, and for this purpose to secure the services of a notary. And a failure so to do would render the bank liable for any damages caused by such failure.[1]

SEC. 225. **Place of contracting by the corporation.** — A corporation can have a legal existence, only, within the state creating it.[2] For the purpose of determining questions relating to the jurisdiction of courts it is also treated only as a citizen of the sovereignty by whose authority it exists; and acts of the corporate body, as such, can only be performed within the limits of such sovereignty. But it is also the generally received doctrine of the courts, that such corporations may, by their agents, execute contracts without the limits of the territory of its creation; the only controversy growing out of the proposition relates to the question whether the party acting is an agent, or whether such party does not stand for or represent practically the corporate body. This question arises where the duly constituted directors of a corporation undertake to act without the limits of such territory.[3] It may be safely assumed that a corporation can make no contracts, and do no acts either within or without the State which creates it, except such as are authorized by its charter; and those acts must also be done by such officers or agents and in such a manner as the charter authorizes. And if the law creating a corporation does not, by the true construction of the words used in the charter, give it the right to exercise its powers beyond the limits of the state, all contracts made by it in other states would be void.

[1] Agricultural Bank v. Commercial Bank, 7 S. & M. 592; Frazier v. N. O. Gas, etc., 2 Rob. (La.) 294; Bank of Oswego v. Babcock, 5 Hill, 152; Warren Bank v. Suffolk Bank, 10 Cush. 582; Citizens' Bank v. Howell, 8 Md. 530.

[2] Aspinwall v. Ohio, etc, R. Co., 20 Ind. 497; Freeman v. Machias Water Power Co., 38 Me. 345.

[3] A corporation, acting as such, can do no acts outside the limits of the state by which it is incorporated; but agents and officers of a corporation, chartered in one state, may bind it by contracts and engagements, made in another state, and the minutes of its board of directors, may be used as evidence of the acts of the board, even though the meetings appeared to have been held out of the state. Wood Hydraulic, etc., Co. v. King, 45 Ga. 34.

Natural persons, through the intervention of agents, are continually making contracts in countries in which they do not reside, and where they are not personally present when the contract is made, and nobody has ever doubted the validity of these agreements. And what greater objection can there be to the capacity of an artificial person, by its agents, to make a contract within the scope of its limited powers, in a sovereignty in which it does not reside; provided such contracts are permitted to be made by them by the laws of the place? The corporation must no doubt show that the law of its creation gave it authority to make such contracts through such agents. Yet, as in the case of a natural person, it is not necessary that it should actually exist in the sovereignty in which the contract is made. It is sufficient that its existence as an artificial person, in the state of its creation, is acknowledged and recognized by the law of the nation where the dealing takes place, and that it is permitted by the laws of the place to exercise these, the powers with which it is endowed. Every power, however, of the description of which we are speaking, which the corporation exercises in another state, depends for its validity upon the laws of the sovereignty in which it is exercised, and a corporation can make no valid contract without their sanction, express or implied. There can be no sufficient reason for excluding them, when they are not contrary to the known policy of the state, or injurious to its interests. It is nothing more than the existence of an artificial person created by the law of another state, and clothed with the power of making certain contracts. It is but the usual comity of recognizing the law of another state."[1] By the comity of nations, a corporation chartered in one county or state may, in the absence of any statute prohibiting it, transact its corporate business and make contracts in another state.[2] The comity between states, so far as it relates to corpora-

[1] Bank of Augusta v. Earle, 13 Pet. 587.

[2] Petroleum Co. v. Weare, 27 Ohio St. 343; unless its acts are repugnant to the policy of its laws. Smith v Alvord, 63 Barb. 415. Such corporations have no status in other states as citizens of the state creating them. Ducat v. Chicago, 48 Ill. 172; Paull v. Virginia, 8 Wall. 168; and such states may impose any conditions it pleases upon which such corporations may transact business within their limits. Western Union Tel. Co. v. Mayer, 28 Ohio St. 521; Farmers and Merchants' Ins. Co. v. Harrah, 47 Ind. 236; Home Ins. Co. v. Davis, 29 Mich. 238; Weymouth v. Washington R. R. Co., 1 McArthur (U. S.), 19.

tions, depends for its exercise upon the laws of the state in which it is to be exercised, and the question as to whether it can exercise all its functions there depends upon the laws of each state, and not in any measure upon the laws of the state that gave it its existence.[1] In Tennessee it has been held that a savings bank incorporated in and for the District of Columbia might do business there, and that depositors in that state might proceed against it there.[2] But where a charter is granted in one state with a provision that it may do business anywhere except in the state in which the charter is granted, the courts will not be inclined to extend the doctrine of comity to it, as no rule of comity allows one state to send corporations chartered there into another state to do business which they are forbidden to do in the state of their origin.[3] The right of a corporation to do business in another state or country, resting purely in comity, it follows that such states may prescribe the terms and conditions upon which they shall be permitted to exercise the corporate functions there, and it has been held that a state may impose a license upon a foreign corporation, as a condition precedent to the exercise by it of its corporate powers there.[4] Or that it shall appoint a general agent upon whom service of process may be made.[5] Or indeed any reasonable condition it pleases, and until such condition is complied with, it cannot enforce any contract made there by it.[6] Even if the restriction imposed is unreasonable, unconstitutional and void.[7] Yet as each state has the right to deny to foreign corporations the privilege of carrying on business within the state, the courts cannot enjoin the officers of the state from revoking its license, although the alleged reason of its revocation is its failure to comply with such law.[8]

[1] Carroll v. City of East St. Louis, 67 Ill. 568; Williams v. Creswell, 51 Miss. 717; Second Nat. B'k v. Lavell, 2 Cin. (Ohio) 397; Thompson v. Waters, 25 Mich. 214.

[2] Hadley v. Freedman's Savings B'k, 2 Tenn. Ch. 122.

[3] Land Grant R. R. Co. v. Coffey County, 6 Kans. 245.

[4] Liverpool Ins. Co. v. Massachusetts 10 Wall. 566.

[5] *In re* Comstock, 3 Sawyer, 218.

[6] Lamb v. Lamb, 13 Bankr. Reg. 17; Western Union Tel. Co. v. Mayer, *ante;* Home Ins. Co. v. Davis, 21 Mich. 238.

[7] Home Ins. Co. v. Morse, 20 Wall. 445.

[8] Doyle v. Cont'l Ins. Co., 94 U. S. 535.

Sec. 226. **Place of contracting by directors.** — The question has been presented whether the directors, with the usual powers and authority of such officers and representatives of the corporate person, are such agents of the corporation as will enable them to hold meetings, appoint agents and make contracts acting as a board for the corporation, outside the jurisdiction of the sovereignty under which the corporation was instituted.

This question was presented to the supreme court of the United States in a recent case where the directors of a railroad corporation, organized in Texas, met in the city of New York, and there authorized the execution of the mortgages on which suit was brought; and one defense was a want of authority of the directors to execute or authorize their execution in New York. The court say: "It is next objected that the mortgages were not properly executed, because the meetings of the directors, by which the mortgages were authorized to be executed, were held in the city of New York. It is not denied that the mortgages were executed in good faith under the corporate seal, and signed by the president and countersigned by the treasurer of the company, and duly recorded in the proper offices of registry in the state of Texas. No doubt it can be true, in many cases, that the extra-territorial acts of directors would be held void, as where a set of directors of a New Jersey corporation met in Philadelphia, against a positive prohibitory statute of New Jersey, and improperly voted themselves certain shares of stock. And other cases might be put where their acts would be held void without a prohibitory statute; and it is generally true that a corporation exists only within the territory of the jurisdiction that created it. But it is well settled that a corporation may, by its agents, make contracts and transact business in another territory and may sue and be sued therein."[1] So in Vermont it has been held that the conferring of authority by the directors of a corporation, upon an agent to execute a deed, was not a corporate act; that the directors in such cases do not act as the corporation but as its agents, and that this authority may be conferred by such directors, at a meeting held without the state of the legal existence of the corporation; that though the corporation as such cannot hold corporate meetings or pass corporate

[1] Galveston R. Co. v. Cowdry, 11 Wall. 476.

acts in another state, still, if the directors have authority to act, they do not act as the corporation but as its agents, and may execute such authority outside the state where the corporation exists.[1] The general doctrine applicable to such cases is that the directors are agents, and not the corporation, and according to the general rule they may meet anywhere, and that their proceedings at such meetings in the absence of fraud will be as binding upon the corporation as though held in the state where it was organized.[2] But where the acts or constating instruments prohibit such a meeting of the directors, this is conclusive, and no authority would exist in such board to contract or authorize a contract to be made binding upon the corporation, outside the limits of the sovereignty of its legal existence.[3]

SEC. 227. **Corporate bills and notes — negotiable quality of corporate bonds.** — It is not unusual for the corporate seal to be annexed to negotiable instruments of a corporation, such as notes and bills. The general doctrine in England and in this country is that such seal does not affect the negotiable qualities of such instrument.[4] In fact it has been held in this country that municipal bonds, as well as the bonds of private corporations, issued and intended to be passed from one to another by delivery merely, have the properties of negotiable paper, though under seal, and even although they may not be made payable to bearer or order, but are transferred by indorsement in the usual way of negotiable instruments. On this question the supreme court of the United States, through Mr. Justice GRIER, has said: "This species of bonds is a modern invention, intended to pass by manual delivery, and to have the qualities of negotiable paper; and their value depends mainly upon this character. Being issued by states and corporations, they

[1] Arms v. Conant, 36 Vt. 745. See, also, Miller v. Ewer, 27 Me. 517; McCall v. Byram Man. Co., 6 Conn. 428.

[2] Ohio, etc., R. Co. v. McPherson, 35 Mo. 13; Wright v. Bundy, 11 Ind. 398.

[3] Ormsby v. Vermont, etc., Co., 56 N. Y. 623; Hilles v. Parrish, 14 N. J. Eq. 380. See, also, Merrick v. Brainard, 38 Barb. 574; S. C., 34 N. Y. 208; Smith v. Alvord, 63 Barb. 415; New York Floating Derrick Co. v. New Jersey Oil Co., 3 Duer, 648; Bond v. Poole, 12 N. Y. 495; Wood v. Hydraulic, etc., Co. v. King, 45 Ga. 34.

[4] See Aggs v. Nicholson, 1 H. & N. 165; 25 L. J. Eq. 248; Bateman v. Mid-Wales R. Co., L. R., 1 C. H. 499; Green's Brice's Ultra Vires, 163; New Zealand Caulking Co. v. Blakely Ordinance Co. L. R., 3 Ch. 154; *In re* Agra and Masterman Bank, *ex parte* Asiatic Banking Corp., L. R., 2 Ch. 391; Myers v. York, etc., R. Co., 43 Me. 232.

are necessarily under seal. But there is nothing immoral or contrary to good policy in making them negotiable, if the necessities of commerce require that they should be so. A mere technical dogma of the courts or the common law cannot prohibit the commercial world from inventing or using any species of security not known in the last century. Usages of trade and commerce are acknowledged by the courts as a part of the common law, although they may have been unknown to Bracton or Blackstone. And this malleability to suit the necessities and usages of the mercantile and commercial world is one of the most valuable characteristics of the common law. When a corporation covenants to pay bearer, and gives a bond with negotiable qualities, and by this means obtains funds for the accomplishment of the useful enterprises of the day, it cannot be allowed to evade judgment by parading some obsolete judicial decision that a bond, for some technical reason, cannot be made payable to bearer. That these securities are treated as negotiable by the commercial usages of the whole civilized world, and have received the sanctions of judicial recognition, not only in this court, but of nearly every state in the union, is well known and admitted." [1]

In the case of bank bills and notes and promissory notes made payable to bearer, or if not so payable, still if by a blank or other indorsement by the payee it is made so payable, the holder is usually treated as the owner. By analogy the rule in such cases has been applied to the ordinary bonds of corporations, and they are regarded by the almost uniform decisions of our courts as possessed of the qualities of negotiable instruments.[2] This doctrine

[1] Mercer Co. v. Hackett, 1 Wall. 95. See, also, Gelpcke v. City of Dubuque, id. 175; Murray v. Lardner, 2 id. 110; Thompson v. Lee Co., 3 id. 327; Aurora City v. West, 7 id. 82; City of Kenosha v. Lamson, 9 id. 481; Smith v. Sac Co., 11 id. 150; Police Jury v. Britton, 15 id. 566; Kenicott v. Supervisors, 16 id. 452; St. Joseph v. Rogers, 16 id. 644; Nugent v. Supervisors, 19 id. 241; Clark v. Iowa City, 20 id. 583; White v. Vermont, etc., R. Co., 21 How. (U. S.) 575.

[2] Durant v. Iowa Co., 1 Woolw. 69; Miller v. Rutland, etc., R. Co., 40 Vt. 399; Chapin v. Vermont, etc., R. Co., 8 Gray, 577; Haven v Grand Junction R. Co., 109 Mass. 88; National Exchange Bank v. H. P., etc., R. Co., 8 R. I. 375; Society, etc., v. City of New London, 29 Conn. 174; State v. Delafield, 8 Paige, 527; S. C., 2 Hill, 159; Bank of Rome v. Village of Rome, 19 N. Y. 20; Brainerd v. New York, etc., R. Co., 25 id. 496; S C., 16 Bosw. 332; Connecticut Mut. L. Ins. Co. v. Cleveland, etc., R. Co., 41 Barb. 9; Blake v. Livingston Co., 61 id. 148; Morris Canal Co. v. Lewis, 12 N J. Eq. 323; Winfield v. City of Hudson, 28 N. J. L. 255; De Voss v. Richmond, 18 Gratt. 338; Barrett v. Schuyler Co., 44

has been aided not only by the tendencies of judicial opinions, but sometimes by positive legislative enactments.[1]

Mo. 197; Smith v. Clark Co., 54 id. 58; Porter v. McCollum, 15 Ga. 528; Craig v. City of Vicksburg, 31 Miss. 217; Maddox v. Graham, 2 Metc. (Ky) 56; New Albany P. R. Co. v. Smith, 23 Ind. 353; Johnson v. County, 24 Ill. 92; Clapp v. County of Cedar, 5 Iowa, 15; Clark v. City of Janesville, 10 Wis. 136; Langston v. South Carolina, etc., R. Co., 2 S. C. 248. See, also, opinion of Mr. Justice DILLON upon the legality of municipal railway aid bonds, 1 Dill. (C. C.) 555.

[1] An interesting statement and history of the law relating to corporate bonds may be found in the opinion of the court of appeals in New Jersey in the case of the Morris Canal and Banking Co. v. Fisher, 9 N. J. Eq. 667. The court say: "That under ordinary circumstances the property of bank notes and of bills and promissory notes payable on their face, or by a blank indorsement to a bearer, follows the possession, has long been settled. By analogy to this class of cases the exigencies of business have from time to time introduced other securities into the same category. The court of king's bench seems to have hesitated to recognize India bonds as belonging to it. Glyn v. Baker, 13 East, 509. But parliament immediately interfered and declared them negotiable instruments. Exchequer bills were so regarded in Wookey v. Pole, 4 B. & Ald. 1. In the case of Gorgier v. Mieville, 3 B. & C. 45, bonds of the king of Prussia, which were shown to be ordinarily passed from hand to hand by delivery and so designed, were held to be like money bills, so as to give a *bona fide* possessor the legal title. And in the case of Lang v. Smith, 7 Bing. 284, the same principle was applied to the case of instruments issued by the government of Naples, although in that case they were held not to be negotiable, because it was found that they did not usually circulate without a certificate, which did not accompany them. The manner in which these bonds are engraved with coupons, making the interest payable half yearly to the bearer of them, and all the evidence before us, conspire to show that the company which issued them and which now disputes the title of the holder, on the ground that they put them into the hands of the seller for a special purpose, which did not authorize him to dispose of them as he did, really intended them to circulate as they do.

"This design is indeed quite as apparent as if it was engraved on their face in express words. The objection now made, that the legal character of the instrument is such as to frustrate this design certainly comes with a bad grace from the party which put them in circulation. Even as between third parties we suppose the common usage to transfer them by delivery without inquiry as to the title of the transferor would justify us in holding these securities to differ from common obligations, in being so far negotiable that the *bona fide* possessor shall be held to have a good title. But the case is still stronger against the party which made and issued them, with full knowledge of the prevailing usage, and with manifest design that they should be so circulated. To permit such parties to dispute this result of the usage would be to permit them to take advantage of their own wrong; and, besides, the obvious interest of the companies is, that these bonds should be salable free from all questions of equity. They are generally issued for the express purpose of raising money by their sale. To declare them subject to the equities existing in the case of ordinary bonds upon every transfer of them, would be to strike a blow at the credit of the great mass of these securities now in the market, the consequence of which it would be impossible to predict."

SEC. 228. **Coupons; their incidents and qualities.**—It is usual to have attached to corporation bonds, and executed in the same manner as the bonds, coupons, or certificates of the amount of interest to become periodically due on such bonds and a promise to pay the same, and specifying the time and place of payment. These are designated to be cut off and presented for payment when due.

Interesting and important questions relating to the character and qualities of such instruments have been presented to the courts. May they be dissevered from the bonds, and transferred like negotiable instruments? Do they in turn draw interest, if not paid when due? Are they to be considered as secured by the mortgage or other security given to secure the bond from which they have been detached? When are they barred by the statute of limitations? Do they lose their validity, if the bonds are paid or canceled before maturity of the coupons?

These and other questions relating to coupons have been determined and settled by the courts.

Thus, it has been held that coupons may be detached from the bonds, and that thus detached they possess the same commercial and negotiable qualities as the bonds themselves;[1] that after they are due they bear interest from the time of a demand of payment and refusal;[2] that they are liens upon the land or other securities given to secure the bond;[3] that the right to recover on the same is barred by the statute of limitations, by lapse of time, sufficient therefor after the right of action accrued thereon, and not on the bond itself; and that they, when detached from the bonds, do not lose their virtue or validity, even when they are not due, and the bonds are paid off or canceled before the coupons are due.

[1] City of Kenosha v. Lamson, 9 Wall. 477; Thomson v. Lee Co., 3 id. 327; Murrey v. Lardner, 2 id. 110; Spooner v. Holmes, 102 Mass. 503; National Exchange Bank v. Hartford, etc., R. Co., 8 R. I. 375; Johnson v. County, 24 Ill. 75; San Antonio v. Lane, 32 Tex. 405; Arents v. Commissioners, 18 Gratt. 750; Aurora City v. West, 7 Wall. 105; Gelpecke v. City of Dubuque, 1 id. 105; Whitaker v. Hartford, etc., R. Co., 8 R. I. 47; Connecticut L. Ins. Co. v. C. C. R. Co., 41 Barb. 9; North Pennsylvania R. Co. v. Adams, 54 Penn. St. 94; Burroughs v. Richmond, 65 N. C. 234; Mills v. Jefferson, 20 Wis. 50.

[2] Sewall v. Brainerd, 38 Vt. 364; Miller v. Rutland, etc., R. Co., 40 id. 399.

[3] City of Kenosha v. Lamson, 9 Wall. 477; Lexington v. Butler, 14 id. 282.

On this subject the supreme court of the United States recently held: "Most of the bonds of municipal bodies and private corporations in this country are issued in order to raise funds for works of large extent and cost, and their payment is, therefore, made at distant periods, not unfrequently beyond a quarter of a century. Coupons for the different installments of interest are usually attached to these bonds, in the expectation that they will be paid as they mature, however distant the period fixed for the payment of the principal. These coupons, when severed from the bonds, are negotiable and pass by delivery. They then cease to be incidents of the bonds, and become, in fact, independent claims; they do not lose their validity, if for any cause the bonds are canceled or paid before maturity; nor their negotiable character; nor their ability to support separate actions; and the amount for which they are issued draws interest from their maturity. They then possess the essential attributes of commercial paper, as has been held by this court in repeated instances. Every consideration, therefore, which gives efficacy to the statute of limitations, when applied to actions on bonds after their maturity, equally requires that similar limitations should be applied in actions upon the coupons after their maturity. Coupons when severed from the bonds to which they were originally attached, are, in legal effect, equivalent to separate bonds for the different installments of interest. The like action may be brought upon each of them, when they respectively become due, as upon the bond itself, when the principal matures; and to each action, to that upon the bond and to each of those upon the coupons, the same limitations must upon principle apply. All statutes of limitations begin to run when the right of action is complete; and it would be exceptional and illogical to hold that the statute sleeps with respect to claims upon detached coupons, while a complete right of action upon such claims exists in the holder."[1]

[1] Clark v. Iowa City, 20 Wall. 585. See, also, De Cordovah v. Galveston, 4 Tex. 470; Underhill v. Trustees, 17 Cal. 172.

The holder may sue on the coupons without being interested in or producing the bonds to which they were originally attached. See decisions in supreme court of United States, above cited.

But municipal warrants or orders, though negotiable in form and transferable by delivery, so that the holder may sue thereon in his own name, do not possess the qualities of negotiable paper, even in the hands of an inno-

SEC. 229 **Ultra vires — doctrine of.**— The doctrine of *ultra vires* is so frequently referred to in connection with corporate contracts that a particular consideration of it seems to have been required. This doctrine, as applied at least to municipal corporations, is that they cannot be bound by any contract executed by any of their officers or agents, which is entirely beyond the scope of their powers, or entirely foreign to the purposes of their creation, or absolutely immoral or against public policy;[1] that contracts thus made are absolutely void; and that no recovery can be had thereon, when the defense set up to the same is the want of power to so contract.[2]

cent holder, so as to preclude inquiry into the legality of their issue, or preclude defenses thereto. Clark v. Des Moines, 19 Iowa, 199; Clark v. Polk County, id. 248; People v. County, 11 Cal. 170; Sturtevant v. Liberty, 46 Me. 457; Emery v. Mariaville, 56 id. 315; Smith v. Cheshire, 13 Gray, 318; Commissioner v. Keller, 6 Kans. 510. But compare with the foregoing authorities, Hyde v. Franklin, 27 Vt. 185; Dalrymple v. Whitingham, 26 id. 345; Bank v. Farmington, 41 N. H. 32; Inhabitants v. Weir, 9 Ind. 224; Taft v. Pittsford, 28 Vt. 286; Halstead v. Mayor, etc., 3 N. Y. 430; The Floyd Acceptances, 7 Wall. 666; People v. Gray, 23 Cal. 125; School District v. Thompson, 5 Minn. 280; Philadelphia v. Lewis, etc., R. Co., 33 Penn. St. 38; Commonwealth v. Pittsburgh, 34 id. 496; King v. Wilson, 1 Dill. (C. C.) 555.

In the case of Everston v. National Bank of Newport, 13 Alb. L. J. 350, the court of appeals of New York recently held, that where coupons of a railroad company were made payable to bearer, they were negotiable and entitled to all the incidents of negotiable paper, such as days of grace; and that a *bona fide* purchaser of the same, after the time fixed for payment, but before the days of grace had expired, was entitled to recover on them, although they had been stolen.

[1] Martin v. Mayor, 1 Hill, 345; Boon v. Utica, 2 Barb. 104; Cornell v. Guilford, 1 Denio, 510; Boyland v. Mayor, etc., 1 Sandf. 27; Dill v. Wareham, 7 Metc. 438; Parsons v. Inhabitants of Goshen, 11 Pick. 396; Vincent v. Nantucket, 12 Cush. 103; Stetson v. Kempton, 13 Mass 272; Spaulding v. Lowell, 23 Pick. 371; Clark v. Polk Co. 19 Iowa, 248; Estep v. Keokuk Co., 18 id. 199; Mitchell v. Rockland, 45 Me. 496; S. C., 41 id. 363; Anthony v. Cleveland, 12 Ohio, 375; Commissioners v. Cox, 6 Ind. 403; Inhabitants v. Weir, 9 id. 224; Smead v. R. Co., 11 id. 104; Brady v. Mayor, etc., 20 N. Y. 312; Appleby v. Mayor, etc., 15 How. Pr. 428; Cuyler v. Rochester, 12 Wend. 165; Hodges v. Buffalo, 2 Den. 110.

But it has been held that, where money has been advanced to a municipal corporation on a contract void for want of authority on the part of the corporation to make it, and the corporation afterward refuses to fulfill the contract, the party thus advancing the money may without a demand of it recover it back in an action for money had and received. Dillon v. Wareham, 7 Metc. 438. See, also, McCracken v. San Francisco, 16 Cal. 571.

[2] Dill. on Mun. Corp., § 381; Marsh v. Fulton Co., 10 Wall. 676; Thomas v. Richmond, 12 id. 349; Bridgeport v. Housatonic, etc., R. Co., 15 Conn. 475; Leavenworth v. Rankin, 2 Kans. 358. But this doctrine seems to be somewhat qualified in Allegheny City v. McClurkan, 14 Penn. St. 81, where it was held that a municipal corporation may be liable for the unauthorized contracts of its officers, when these are publicly entered into with the knowledge of the citizens and not objected

In favor of *bona fide* holders of securities, the corporation may be estopped to avail itself of irregularities in the exercise of power conferred, but it may always be shown that under no cir-

to, until the rights of third persons have attached. Starting out with the proposition that a corporation is a mere creature of law, and possesses no powers except such as are expressly conferred upon it, or are necessarily incident to the purpose for which they are formed, Head v. Providence Ins. Co., 2 Cranch C. C. 127; Dartmouth College v. Woodward, 4 Wheat. 636; Betts v. Menard, 1 Ill. 14; State v. Stebbins, 1 Stew. 299; Beaty v. Knowler, 4 Pet. 152; Beatty v. Marine Ins. Co., 2 Johns. 109; People v. Utica Ins. Co., 15 id. 358; 2 Cow. 657; Fuller v. Plainfield Academic School, 6 Conn. 532; Gozzler v. Corp. of Georgetown, 6 Wheat. 597; State v. Mayor of Mobile, 5 Port. 279; City Council of Montgomery v. Plankroad Co., 31 Ala. 76; Smith v. Morse, 2 Cal. 524; Smith v. Eureka Flour Mills, 6 id. 1; Winter v. Muscogee Ry. Co., 11 Ga. 438; Kinzie v. Chicago, 3 Ill. 187; President, etc., of Jacksonville v. McConnel, 12 id. 138; Petersburgh v. Matzker, 21 id. 205; La. State B'k v. Orleans Nav. Co., 5 La. Ann. 294; Baltimore v. Baltimore, etc., R. R. Co., 21 Md. 50; Whiman Mining Co. v. Baker, 3 Nev. 386; Downing v. Mt. Washington, etc., Co., 40 N. H. 230; Strauss v. Eagle Ins. Co., 6 Ohio St. 59; White's Bank v. Toledo Ins. Co., 12 id. 601; McMasters v. Reed, 1 Grant's (Penn.) Cas. 36, it would seem comparatively easy to determine whether an act done by it was *ultra vires* or not. But the great difficulty that stands in the way is to determine what acts are to be regarded as *incident* to the powers granted. Many powers are necessarily tacitly annexed to a corporation, as it would be impossible to embrace them specifically in the charter or laws which gives them a legal status, so that ordinarily instead of specifically defining what a corporation *may* do, it is more common to specify those things which it may not do, leaving the courts to regulate and determine the extent of its powers in view of the grant and of the nature, character and purposes of the corporation. It is quite evident that the implied powers of a corporation, instituted for the purposes of manufacturing a certain class of goods, would be quite different from those established for the purpose of carrying on the business of banking, and, independently of any express provisions in the law creating the two classes of corporations, the nature of the business suggests at once the distinction as to the extent and scope of the implied powers possessed by either, and this distinction extends through the whole catalogue of purposes for which corporations are formed. In determining then, in a given case, whether an act done by a corporation or a contract entered into by it is *ultra vires* in the absence of any express prohibition, two things are to be looked to; First, the laws under which the corporation was formed; and second, the nature of the business and the expressed purposes for which it was formed. Thus, a turnpike company, incorporated for the purpose of building and maintaining a turnpike, and authorized to take tolls thereon, as an incident to the grant, has authority, although not expressly conferred, to erect gates thereon, and toll-houses at suitable and proper places for its own protection, and under its authority to take lands for the construction of the road, would also have authority to take such land as is necessary for the erection and maintenance of such toll-houses, and the reason is that the grant would be valueless unless it could adopt such reasonable precautions for the collection of its tolls, and every thing reasonably necessary, and secure a beneficial exercise of the grant, will be presumed to have been impliedly granted. Wright v. Carter, 27 N. J. L. 76; Redge Turnpike Co. v. Staener, 6 W. & S. (Penn.) 378. But a corporation established for such a purpose does not, as an incident to its grant, possess the power to establish a line of stages thereon, because by no possible line of reasoning or construction can the latter business be said to be an incident of the former. Wiswall v. Greenville, etc., Plankroad

cumstances could the corporation lawfully make a contract of the character in question. This was the early rule of the English cases, in the application of the doctrine of *ultra vires* to private

Co., 3 Jones' (N. C.) Eq. 183; Dawning v. Mount Washington Co., 40 N. H. 230. In construing a charter or law under which a corporation is formed, the courts will not generally be inclined to construe it either strictly or liberally but rather according to the fair and natural import of it with reference to the objects and purposes of the corporation, Downing v. Mount Washington, 40 N. H. 230; and such as will give them full effect. The Enfield Toll Bridge Company v. The Hartford and New Haven R. R. Co., 17 Conn. 454. There is no rule or principle by which an act creating a corporation for certain specific purposes is to be strictly construed as prohibitory of all other dealings or transactions not coming within the exact scope of those designated, nor on the other hand that it shall be construed so liberally, as to give it authority to carry on business entirely foreign thereto; but its main business is to be confined to that class of operations which properly appertain to the general purposes for which its charter was granted, or for which, under the general law relating to the formation of such companies, it was formed. It may enter into transactions which are incidental or auxiliary to its main business, or which are or by the force of circumstances become necessary, expedient or profitable in the prosecution of its business, and the care and management of the property which it was authorized to hold under the law creating it. Brown v. Winnisimmet Co., 11 Allen, 326. Thus, in the case last cited, where a corporation was established with power to establish and maintain a ferry, and to own and possess vessels, steamboats and other personal property, not exceeding a certain amount in value, it was held that the court could not say that a contract by the company to let one of its steamboats at a certain rate per day, to be used for no specified length of time, and in no specified place, is in excess of its corporate powers, if there is no proof that the *steamboat was not necessary or proper to be used in the prosecution of the business of the ferry or that by reason of owning it the company exceeded the limits of property which it was authorized to hold.* It would be destructive to the purposes for which corporations are formed, to hold them up to a strict construction of the grant of authority, and to hold that they should not be permitted to exercise all those powers fairly incident to the business which they are organized to perform, and to say that if they exceeded the *express* powers conferred upon them their acts should be *ultra vires*, and void; and no such rule obtains, and acts of a corporation not *entirely* foreign to the purposes of its institution are not void, although it may, in some respects, have exceeded its authority. Miners' Ditch Co. v. Zellerbach, 37 Cal. 543; McPherson v. Foster, 43 Iowa, 48: State Board of Agriculture v. Citizens Street Railway, 47 Ind. 407. For an *abuse* or an *excessive exercise of its power* the state may interpose and revoke the grant, but a person, who was a party to such a transaction or contract cannot avoid his liability upon that ground. The rule was clearly and forcibly expressed in a Massachusetts case, Monument National Bank v. Globe Works, 101 Mass. 57, substantially that the doctrine of *ultra vires* has full application to avoid only those transactions which involve an attempt to exercise a power *which has not been conferred on the corporation;* and that the *abuse* in a particular instance of a general power which a corporation *does possess* cannot be shown to avoid a contract made by it, either by the corporation or the person with whom it dealt. Thus if a corporation has power to borrow money for some purposes, and has done so, it cannot impeach the security or evidence of debt given therefor upon the ground that the money was applied to a prohibited purpose. Thompson v. Lambert, 44 Iowa, 239; Bradley v. Ballard, 55 Ill. 413; Whitney Arms Co. v. Barlow, 63 N. Y. 68.

In order to be operative as a defense,

corporations, viz.: that such corporations have the powers only which are conferred by the charter, the incorporating statutes or the constating instruments, and that they can only be bound by

there must be a *total* want of power, and where, on their face, the dealings of a corporation are within the scope of its charter, they will be presumed to be legal and authorized until some proof is given to the contrary. Like individuals, corporations are entitled to the benefit of the presumption that imputes innocence rather than wrong to the conduct of their affairs. Montague v. Church School District, 34 N. J. L. 218; Chautauqua County Bank v. Risley, 19 N. Y. 369; De Graff v. American Linen Thread Co., 21 id. 124; McDaniels v. Flower Brook Manuf. Co., 22 Vt. 274; Farmers' Loan and Trust Co. v. Clowes, 3 N. Y. 470; N. Y. Fireman's Ins. Co. v. Sturges, 2 Cow. 664; Safford v. Wyckoff, 4 Hill, 442, Bates v. State Bank, 2 Ala. 451; Bank of Kentucky v. Schuylkill Bank, Pars. Sel. Cas. 180; *Ex parte* Grady, 8 L. T. (N. S.) 98. There are, as we have seen, certain incidental powers possessed by corporations, but there can be no incidental power that is not appurtenant to the principal, and not possessed of a similar character, nor can there be any incidental power which would have been refused as a principal, or any thing on the most liberal construction, which is not necessary and proper to carry the principal express powers into effect. Sumner v. Marcy, 3 Wood. & M. 105. And in the case last cited it was held that the incidental power of a business corporation to borrow money did not extend to justify it in purchasing a controlling interest in a bank so as to be able to lend to themselves. If a corporation, as a dock company, is clothed with authority to buy, *improve* or dispose of real property, the power to *improve* will be treated as extending the powers of the company to the performance of any act whether on or off the land, *the direct and proximate tendency of which* will be to enhance its market value. Vandall v. South San Francisco Dock Co., 40 Cal. 83. So the building of saw-mills and a hotel for those having business at the location of the company was held to be within the power of a corporation owning a very large body of land and authorized by their charter to aid in the development of minerals and other materials and to promote the clearing and settlement of the country. Watt's Appeal, 78 Penn. St. 370. So it has been held that the power to mortgage is so far incidental to or implied from a power to acquire and hold real estate, that an agricultural society which has borrowed money upon a mortgage of its fair grounds, for money borrowed for the erection of buildings thereon, is estopped from repudiating the mortgage as *ultra vires*. West v. Madison County Agricultural Board, 82 Ill. 205 But it has been held that for an agricultural society to establish a horse fair for the purpose of testing the speed of horses by trotting, and to pay premiums for such as excel, out of a fund raised by assessments on the owners of horses entered, and by an admission fee to the grounds is *ultra vires* and illegal. Bronson Agricultural, etc., Ass'n v. Ramsdell, 24 Mich. 441. And without stopping to enumerate the instances in which acts of corporations have been valid or invalid as being within or beyond the express or implied powers conferred upon it it may be said that in general a corporation created for a specific purpose can make only such contracts as are necessary, either directly or incidentally, to enable it to answer that purpose. In deciding, therefore, whether such a corporation can make a particular contract, the questions are, first, whether its charter, or some statute binding upon it, forbids or permits it to make such a contract; and if the charter and valid statutory law are silent upon the subject; then second, whether the power to make such a contract may be implied on the part of the corporation as directly or incidentally necessary to enable it to fulfil the purpose of its existence; or whether the contract is entirely foreign to that purpose. Weckler v. First Nat. Bank, 42 Md. 581.

contracts by their agents or otherwise that are within the limits of the powers thus possessed. And this seems to have been the American doctrine.[1]

Thus it was held that a company incorporated for the purpose of establishing and conducting a line or lines of steamboats, vessels and stages, or other carriages for the conveyance of passengers between certain places, could not make a valid contract for the breaking of ice for the passage of vessels, and the towing of vessels through the track thus broken to a place other than designated, and that an action could not be maintained upon such a contract against such corporation if the defense of a want of power to contract was made;[2] and it has also been held that a corporation was not estopped from making a defense on the ground of *ultra vires*, even though it had received the consideration or benefits of the contract.[3] What then is the present doctrine on the subject of *ultra vires?* Is a contract entered into on the part of a corporation void under all circumstances if it exceeds the powers conferred upon it? Is it void if it exceeds the chartered powers of the corporation, provided the corporation has received the consideration of the contract, or the benefits resulting from it? Is it void if it is a promissory note or other negotiable instrument in the hands of a *bona fide* holder, given as the consideration of a contract, or for property delivered? Would it be void if executed by an agent in excess of his authority, where the corporation has received the consideration? What remedy exists in case of the attempt to act or contract on the part of a corporation or its agents in excess of the powers conferred upon it or them, and who is entitled to it? These are among the numerous questions presented by the doctrine of *ultra vires*, in its application to corporations. We will proceed to consider them and the modern doctrine relating to that subject.

[1] Earl of Shrewsbury v. North Staffordshire R. Co., 35 L. J. Ch. 156; Taylor v. Chichester, etc., R. Co., L. R., 2 Ex. 356.

[2] Pennsylvania Co. v. Dandridge, 8 G. & J. 248. See, also, Abbot v. Baltimore Steam Jack. Co., 1 Md. Ch. 542; Mechanics' Bank v. Meriden Agency Co., 24 Conn. 159; Berry v. Yates, 24 Barb. 199.

[3] Gage v. New Market R. Co., 18 Q. B. 457; 14 Eng. L. & Eq. 57; Preston v. Liverpool R. Co., 5 H. L. C. 605; Albert v. Savings Bank, 1 Md. Ch. 407; Ohio L. Ins. Co. v. Merchants' Ins. Co., 11 Humph. 1; Guest v. Poole R., L. R., 5 C. P. 553.

SEC. 230. **Different senses in which the term ultra vires is used.** — In a recent case in California, the supreme court of that state has referred to the different senses in which the term *ultra vires* is used. SAWYER, C. J., observed: "An act is said to be *ultra vires* when it is not within the scope of the powers of the corporation to perform it under any circumstances or for any purpose. An act is also sometimes said to be *ultra vires* with reference to the rights of certain parties, when the corporation is not authorized to perform it without their consent; or with reference to some specific purpose when it is not authorized to perform it for that purpose, although fully within the scope of the general powers of the corporation, with the consent of parties interested, or for some other purpose. And the rights of strangers dealing with corporations may vary, according as the act is *ultra vires* in one or the other of these senses. All these senses must be constantly borne in mind in considering a question arising out of dealings with a corporation. When an act is *ultra vires* in the first sense mentioned, it is generally, if not always, void *in toto*, and the corporation may avail itself of the plea. But when it is *ultra vires* in the second sense, the right of the corporation to avail itself of the plea will depend upon the circumstances of the case.[1]

We will proceed to consider these two propositions, and to determine, first, the effect of this doctrine of *ultra vires* in relation to contracts made by the corporation, but in so doing it has exceeded the authority and power which it possesses by virtue of the powers conferred upon it by law; and, secondly, its effect where contracts are made by its officers or agents in excess

[1] The Miners' Ditch Co. v. Zellerbach, 37 Cal. 543. As to the doctrine of *ultra vires* see, also, the English cases, East Anglian, etc., R. Co. v. Eastern, etc., R. Co., 11 C. B. 775; Brice's Ultra Vires, 28 *et seq.*; Shrewsbury, etc., R. Co. v. London, etc., R. Co., 22 L. J. Ch. 682. In the latter case it is observed: "The great undertakings of these (*i. e.*, railway and similar) companies could not be carried out by private enterprises, and parliament has, therefore, with a view to public good, authorized the constitution of large bodies, acting by directors, for the purpose of carrying them out. But these bodies have no existence independent of the acts which create them, and they are created by parliament with special and limited powers, and for limited purposes. Whether parliament has wisely limited their powers for purposes of their incorporation is not for us to consider. The fact of their being endued with such powers and incorporated for such purposes only shows that parliament did not think fit to intrust them with more extended powers, or to incorporate them for other purposes."

of and beyond the authority conferred upon them for that purpose, by the creating acts or constating instruments.

Sec. 231. **Are all contracts void that are entered into by corporations, which are ultra vires?** — In considering this question it may be proper to state that a distinction has been made between contracts executed or partly executed, and those that are not either in whole or in part executed. We will present the following hypothetical case for illustration: Suppose a banking institution is duly incorporated with the ordinary powers and privileges of such a corporation, and it is finally resolved by such bank, in the usual and authorized mode of corporate action, that it will embark in the purchase of grain; and that to such a course and policy, on the part of the corporation, there is not a dissenting stockholder, or other person having any interest in the same. In carrying out this resolution, we will suppose that the corporation purchases, principally on time, a large quantity of wheat, for which it pays the seller only a small portion of the consideration, and gives its obligation in the form of a negotiable note or bill for the balance. If the corporation should be successful in the investment, a large sum may be realized and the stockholders enriched thereby; the obligation to pay for the wheat would be canceled, and the members of the corporation pocket the dividends thereby produced, with entire satisfaction. But suppose the investment turns out unfortunate, and a large loss is sustained, and that the obligation given for the wheat is repudiated, on the ground that the corporation had no authority to make such a contract and that the excess of power in this respect must be presumed to be known by the other party to the contract and that the statutes and by-laws are public acts and records, of which parties dealing with it are required to take notice; and that such acts or instruments clearly show that the corporation was exceeding the powers conferred upon it. Can such a defense be maintained in an action against the bank on the obligation given?

If maintainable against the payee, would it be against a *bona fide* holder, without notice of the purposes for which the note or bill was given? Against the doctrine of *ultra vires*, in such cases as a defense, Comstock, C. J., observes: "If the enterprise is

successful, the corporation and its stockholders gain by the result. If a depression occurs in the market, and disaster is threatened, the doctrine that a corporation can never act outside of its charter enables it to say, 'this is not our dealing,' and the money used in the dealing may be unconditionally reclaimed from whatever parties have received it for value; while the injured dealer must seek his remedy against agents, perhaps, irresponsible or unknown. Corporations may thus (if the doctrine of *ultra vires* in such cases is adopted) take all the chances of gain, without incurring the hazard of loss. Familiar maxims of the law must be reversed. In the relation of private principal and agent, the adoption of the agent's unauthorized dealings is equivalent to an original authority; and the adoption is perfect when the principal receives the proceeds of that dealing. Corporations may practically act in the same manner. * * * But is it true that all contracts for purposes not embraced in their charters are illegal, in the appropriate sense of the term? This proposition I must deny. Undoubtedly, such engagements may have vices, which sometimes infect the contracts of individuals. They may involve a *malum in se*, or a *malum prohibitum*, and may be void for any cause which would avoid the contract of a natural person. But where no such vices exist, and the only defect is one of power, the contract cannot be void because it is illegal or immoral. Such a doctrine may have some slight foundation in the earlier English railway cases,[1] but it was never established, and is not now received in the English courts.[2]

"The books are full of cases upon the powers of corporations and the effect of dealing in a manner and for objects not intended in their charters; but with the slight exception named, there is not only an entire absence of adjudged cases, even of judicial opinion or *dicta*, for the proposition that mere want of authority renders a contract illegal. Such a proposition seems to me absurd. The words '*ultra vires*,' and 'illegality,' represent totally different and distinct ideas. It is true that a contract may have both these defects, but it may have one without the other. For example, a

[1] The East Anglian R. Co. v. The Eastern Counties R. Co., 7 Eng. L. & Eq. 509; Macgregor v. Deal, etc., R. Co., 16 id. 180.

[2] The Mayor, etc., v. The Norfolk R. Co., 30 Eng. L. & Eq. 120; Eastern Counties R. Co. v. Hawkes, 35 id. 8.

bank has no authority to engage, and usually does not engage, in benevolent enterprises. A subscription made by authority of the board of directors and under the corporate seal, for the building of a church or college, or an alms-house, would be clearly *ultra vires*, but it would not be illegal.[1] If every corporator should

[1] The question as to whether an act done in a different mode from that prescribed by the charter is legal, depends upon the circumstance whether by usage the company had adopted such mode of executing its powers, and if so, although the charter made is not pursued, the company is bound. This rule was well illustrated in Buckley v. Derby Fishing Co., 2 Conn. 252. In that case an action was brought upon a policy of insurance *signed by the president* of the company *and countersigned by the assistant.* The act authorizing the company to pursue the business of insurance provided that "all policies of insurance made by said company, *signed by the president, or in his absence by the assistant, and countersigned by the secretary*, shall be binding on said company according to the terms and tenor thereof." The defendants insisted that they were not liable upon the policy, because the secretary did not countersign it. The plaintiff showed by the books and records of the company, a practice on its part to issue policies in this way, and the court held that by such a course of practice the company rendered itself liable, *although the policy was not executed in the mode required by the charter.* "I consider it to be undoubted law," said Hosmer, J., "that a corporation may incur a liability different from the prescriptions of its charter like individuals; it is responsible for the manner in which it permits its agents to hold it out to the world * * * what is *usually* done by the agents of a corporation in the transaction of the business confided to them, it is a fair presumption that the stockholders are cognizant of. Although they reside in different places, they have an interest in acquainting themselves with the proceedings of the corporation. The office where the business is done is open; the books of the company are subject to their inspection; and it would be absurd to suppose them ignorant of those public facts, relating to the ordinary transaction of the corporate concerns, with which mankind in general are acquainted. In short, every transaction of the company, established by proof of direct authority from the stockholder, or implied from the usual modes of doing their business, which is not against law, or a prohibition contained in their charter, is obligatory upon them."

Gould, J., said: "It is observable, that the company are not, in this case, *claiming a right*, through the agency of an individual, whose authority to act for them is denied by the adverse party. It is, therefore, unnecessary to inquire whether in such a case evidence, like the present, could be admitted in their *favor* or not. Here the demand is *against* the company upon a contract executed in their name by *Gillet*, as president, and *Wheeler*, as assistant; and both of whom, it is claimed, were the company's agents for that purpose. But to this claim it is replied, first, that by the terms of the act of incorporation, the company cannot be bound by any contract unless it is signed by the president and countersigned by the *secretary;* and, therefore, that this policy, not being so executed, does not bind them, even admitting that *Wheeler*, as assistant, was, *de facto*, employed as their agent for the purpose of countersigning.

A corporation certainly cannot, by its own act, enlarge its own capacities, powers or rights; but it would be strange to say that it cannot thus voluntarily incur *liabilities.* If a corporation, by a corporate act, appoints an agent under any name or title whatever for the purpose of making, in its own behalf, any contract which it has a right to make, can the corporation itself impeach such a contract made in its name by that agent by alleging its own want of power to make such an appointment, or to contract by such an agent? The present objection must, to

expressly assent to such an application of the funds, it would still be *ultra vires*, but no wrong would be committed and no public interest violated. So, a manufacturing corporation may purchase

avail the defendants, go to this extent. But such a doctrine is in violation of all principle. A corporate body, by transgressing the limits of its charter, may, doubtless, incur a forfeiture of its privileges and powers; but who ever imagined that it could thus acquire an *immunity* to the prejudice of third persons? The clause in which the act of incorporation prescribes the mode of signing contains no negative words; *i. e.* no provision that a contract signed in any other mode than that prescribed shall *not* bind the company. It would be highly unreasonable, therefore, to construe that mode as *exclusive* to the injury of strangers — especially as the statute is not in its nature a public one, and third persons are, of course, neither bound nor presumed to know its provisions. The case *Ex parte* Meynot, 1 Atk. 196, though not in point, contains a doctrine which, I think, has an important bearing upon the present question. That was an application to the lord chancellor to supersede a commission of bankruptcy which had been taken out against the petitioner — he being a *clergyman*. The application was founded upon the statute 21 Hen. 8, by which clergymen are *prohibited* under heavy penalties from *trading;* and their contracts, as traders, are declared "utterly void and of no effect." Lord HARDWICKE, however, dismissed the petition; and among other things observed: "If a man with his eyes open will break the law, that does not make void the contract. It is, undoubtedly, very improper for a person to say I have broke the law, and therefore, I am exempt from any remedy a creditor may have against me." "I am inclined to be of opinion that the contract shall be void as to the *parson himself only;* for it would be a most extraordinary construction of the statute that the bargain shall be void *for his own benefit;* and it would be very mischievous to construe the act in such a manner." "Shall the bargain be void for the *parson's* benefit?" "This part of the act ought to be so construed as to make it a penalty on *himself only*." This reasoning, I repeat, applies strongly, by analogy, to the question before the court. And if the petitioner, in that case, was bound by his contract, notwithstanding the strong language of the statute of 21 Hen. 8, *a fortiori*, it would seem, ought the policy, in the present case, to bind the company if *Wheeler* was actually their agent for the purpose of countersigning — whether the contract was executed in the form prescribed by the act of incorporation or not.

We come, then, to the second objection made by the defendants, *viz.:* that a corporation aggregate cannot appoint an agent except by *deed;* and that, therefore, no other evidence than that of a deed is admissible to prove *Wheeler's* authority to countersign the policy. The first proposition is generally, though not universally true, as to *express* authorities; but it applies to no other. If, then, the plaintiffs were attempting to prove a specific act of the company, expressly conferring upon *Wheeler* the authority, under which he is claimed to have acted, the defendants might properly insist that the fact could be proved in no other way than by proof of a corporate act. But *implied* authorities, which are almost as familiar in the law as implied promises, and which rest upon mere presumptions are always proved by circumstantial or collateral facts and can be proved in no other way. Usual or frequent practice, in business, is the ordinary evidence in such cases. The general principle is that one person, who by permitting another to act ostensibly as his agent, has given him a credit with the public as such, shall, in favor of third persons, be presumed to have authorized the latter to act in that character, and be precluded from averring the contrary. This presumption is established by proof of usage or practice. As that the one has been in the habit of acting in the name and in behalf of the other, and that the latter, either by positive acts or by acquiescence, impliedly recognized the agency. And the presumption, to be available to any purpose, necessarily

ground for a school-house, or a place of worship for the intellectual, religious and moral improvement of its operatives. It may buy tracts and books of instruction for distribution among them. Such dealings are outside of the charter; but so far from being illegal and wrong, they are, in themselves, benevolent and praiseworthy. So, a church corporation may deal in exchange. This, though *ultra vires*, is not illegal, because dealing in exchange is not, itself, an unlawful act." [1] It is evident that by the plainest principles of justice, corporations making contracts in such cases, and receiving the consideration and the full benefits of the same, should not be allowed to defeat the obligations made by them therefor; or, at least, should not be permitted with impunity to appropriate the property of another received by virtue of such a contract, and, under a plea of *ultra vires*, defeat any recovery therefor.

embraces all *legal requisites* to the creation of a valid authority. Hence, a deed, a by-law, or a record, may as well be presumed as any other fact. The Mayor of Kingston-upon-Hull v. Horner, Cowp. 102.

It may be objected that the usage in this case, not being *ancient*, can afford no evidence of *Wheeler's* authority. But the rule requiring a usage to be ancient to found a presumption is not *in pari materia*. When a title or interest is to be presumed from possession, enjoyment or *user*, lapse of time is essential. But that rule has a different object, and is founded upon different principles from any involved in the present question. It is designed to quiet long and uninterrupted possession, enjoyment or *user*, by discouraging stale and dormant claims, and can have no application at all to questions like the present.

But how, it is asked, can the usage of a corporation which is an invisible body, existing only in contemplation of law, be proved or even known? I answer, by the acts of its officers or acknowledged agents, in the management of its ordinary concerns. This point was conceded by counsel and decided by the court in Rex v. Bigg, 3 P. Wms. 419; and in the case of The Mayor of Kingston-upon-Hull v. Horner, *ante;* this species of evidence was admitted to establish a claim in favor of a corporation. Now, the evidence offered in the present case, whether sufficient to prove the fact or not, certainly conduces to prove that *Wheeler* was in the habit of countersigning contracts as agent for the company; that his acts, in that character, have been recognized as valid by the proper officers of that body; and that the corporation knowing or having in its own books and records the means of knowing the fact, has acquiesced in his agency and in the present instance taken advantage of it by retaining the premium note." In White v. The Derby Fishing Co., 2 Conn. 26, it was held that banks and other corporations of similar nature, authorized by their act of incorporation to contract in a particular mode, may by a course of practice render themselves liable on instruments executed in a different mode. Thus where the statute provided that all notes and contracts signed by the president and countersigned by the secretary should be valid, it was held that an issue of notes and bills signed by the president, bound the corporation.

[1] Bissel v. The Michigan, etc., R. Co., 22 N. Y. 264–269.

SEC. 232. **Same continued.** — The right of recovery in such cases is sometimes made to rest upon the unanimous consent and approval of the stockholders. But in case this is not expressly given, it would probably be presumed from an acceptance of the fruits and profits of an enterprise thus entered upon *ultra vires*, and of the benefits and consideration of a contract made by the corporation in the prosecution of such enterprise.

This would, undoubtedly, be a ratification of the contract by them. But if such corporation, by itself or its agents, engages in such an enterprise, and in the usual way issues its obligations, would the failure of a member to give his express or implied assent thereto enable him or the corporation to make *ultra vires* a defense to such an obligation, the consideration of which has been received and appropriated by the corporation, for a purpose foreign to the original objects and purposes of its creation? If, as has been suggested, the contract has been executed and the corporation has received the consideration of the same, and more especially if the stockholder has, with a knowledge of the transaction, acquiesced therein, and received his share of the dividends and profits of the enterprise, this would, undoubtedly, conclude him and the corporation from a defense on the ground of *ultra vires*. But a member, under other circumstances, has an unquestioned right to restrain the execution of an undertaking, or a contract clearly *ultra vires*.[1]

SEC. 233. **Distinction between executed and unexecuted contracts in relation to the doctrine of ultra vires.** — We have noticed that corporations may enter into contracts that will become binding, although such contracts may exceed its authorized powers. Whether ab-

[1] It may be the duty of the member under such circumstances to restrain the unlawful act in such cases, which he may do by injunction; and in the absence of such proceeding, be estopped from insisting upon the defense of *ultra vires* as he might be presumed to acquiesce in the execution of contracts to which he expressed no dissent, if executed in the usual manner. The power of a court of equity to restrain a corporation from doing acts which are in excess of its powers is well settled, but, in order to warrant the interference, there must be a gross abuse of its powers, or acts, clearly in excess thereof, *which will result injuriously to the complainant*. Jones v. Mayor, etc., of Little Rock, 25 Ark. 301; Lane v. Schomp, 20 N. J. Eq. 82; Union Pacific, etc., R. R. Co. v. Lincoln County, 3 Dill. (U. S. C. C.) 300; St. Louis v. Weber, 44 Mo. 547; Robinson v. Chartered Bank, L. R., 1 Eq. 32; Bach v. Pacific Mail Steamship Co., 12 Abb. Pr. (N. S.) 373.

solutely void or not may depend upon the question whether such contract is prohibited by the positive provisions of the statute or public policy. If it exceeds the express or implied powers of the corporation, it does not, from the preponderance of authority, necessarily follow that it is void or even voidable. A stockholder may, in such a case, restrain the act. But in the absence of such proceeding, and especially where the act has received the unanimous assent of the corporators, it would be treated as valid and binding.

Again, if the corporation, by virtue of a contract, has received and appropriated the fruits of a contract, or appropriated property acquired thereby, it would not usually be heard to object that it had not authority to act. To allow such a plea as a defense to an obligation would be to allow it to take advantage of its own wrong. It has been replied to such a conclusion, that a party dealing with a corporation is supposed to know of the extent of its powers, and that, therefore, a contract entered into with the corporation, in excess of such powers, makes him equally a wrongdoer. But such acts in excess of corporate authority are not tainted with criminality, nor are they necessarily illegal, as we have seen, on that ground.

On the other hand they may be entirely laudable and praiseworthy, although in excess of chartered powers. Can a corporation, then, receive the consideration of an obligation, or the property of another, even for purposes foreign to its institution, and appropriate the same, and refuse payment therefor? Or can the corporation in case of an agreement, made in excess of corporate powers, but not executed, no consideration having actually passed between the parties (such as a contract between a railroad company and an individual, by which the latter is to construct steamboats, to be operated by the company in a manner not embraced within the powers conferred upon it), refuse to comply with such agreement on its part, and make a successful defense to any claim for damages thereon by the other party, by reason of the breach of such contract, on the ground that such contract is *ultra vires?* [1]

[1] In Morgan v. Donovan, 58 Ala. 241, it appeared that an act chartering a corporation to construct and operate a railroad between Mobile and New Orleans, empowered it to acquire and hold such real property as might be

SEC. 234. **Same continued.** — In answer to the first question, and to illustrate the law on the subject, we will suppose that a corporation is duly organized to construct and operate a railroad from

necessary therefor, and to obtain any steamboats, piers, "wharves," and the appurtenances thereunto belonging that the directors might deem necessary, profitable, and convenient, to use and manage in connection with said railroad. The corporation executed certain deeds of trust of "the lands occupied by said railroad," etc., "in connection with said portion of said railroad situate within the limits of said cities," etc., or on the "line thereof;" also of "all depots, station-houses, wharves," etc., "used in connection with its said railroad, together with all steamboats and personal property," etc., "used exclusively for constructing, maintaining, operating, or conducting the business of said railroad." It was held (1.) that, in these deeds of trust, property acquired and owned, and not used or to be used in connection with the railroad, and in promotion of the direct and proximate purposes of its construction did not pass; (2.) that property bought of an opposition steamship line, *not with a view of employing it in connection with the business of the road, but to withdraw it from business, thereby preventing competition,* was not authorized to be acquired by the charter, *and not conveyed by the granted clauses in said deeds of trust.* In a California case, Mahoney v. Spring Valley Water Works, 52 Cal. 159, it was held that the California water corporation act does not empower a water company, after commencing proceedings for the taking of private property, to sell and transfer its right to another water company, nor to prosecute proceedings for the taking of private property in the name of another company. The rule seems to be, that parties dealing with corporations are chargeable with notice of the limitations imposed by the charter upon their powers. And that in the United States one corporation cannot hold or deal in the stocks of another, unless expressly authorized by law to do so. Thus the trustees of a savings institution subscribed for $50,000 of the capital stock of the C. company, and the trustees having no money to pay for it, the F. company paid that amount to the C., taking the notes of the savings institution therefor, and a certificate of the stock in the F.'s own name as collateral. *Held,* that the subscription was *ultra vires;* that the F. was not a *bona fide* holder of commercial paper; and that the savings institution, having received no benefit from the transaction, was not estopped to set up the defense of *ultra vires.* Franklin Company v. Lewiston Institution for Savings, 68 Me. 43. It seems that a corporation may make a valid bond in a judicial proceeding under bond made as to an appeal bond reciting that S., "as superintendent of" a certain "railroad company," and the other persons whose names were signed thereto, "are held and firmly bound," etc., was held valid and binding upon the corporation. Collins v. Hammock, 59 Ala. 438. And even where an act is *ultra vires,* long acquiescence therein by the corporation estops it from setting it up to defeat rights acquired under it. Thus in Sheldon Hat, etc., Co. v. Eickmeyer Hat, etc., Co., 56 How. Pr. (N. Y.) 70, the plaintiff corporation was sued in the federal courts for infringing the patents of the defendant corporation. By the decree the plaintiff was perpetually enjoined from using said patents, and adjudged to pay $97,000 for the infringement. The plaintiff being unable to pay this sum, the trustees settled with the defendant by transferring to the latter all the plaintiff's patent-rights, which included valuable patents apart from the process which had been decreed to be an infringement. The plaintiff was engaged in the business of blocking and stretching hats, and the patent-rights transferred, used in combination with the process adjudged to be an infringement, were essential to the processes employed by the plaintiff in its business. It was held in an action brought five years after the settlement in the name of the corporation, seeking to set aside the transfer as fraudulent and *ultra vires,* that inasmuch as the value

Chicago to Cairo, in the state of Illinois, and that having completed said road it proposes to connect the same with a line of steamboats, to be constructed and operated on the Mississippi river, between Cairo and New Orleans. To carry out this enterprise entirely foreign to the purposes of its organization, we will also suppose that such corporation, in the usual way, enters into a contract with an individual to construct a number of steamboats, and that pursuant to said contract said steamboats are constructed and operated as aforesaid by said company; that the consideration for such boats, given by said company, in pursuance of the provisions of the agreement, was its bonds executed and issued in the usual way, secured by a mortgage on its railroad; that said boats were insured by the company; that subsequently said company received the amount of the cost of such boats from insurance companies, on account of a total loss of the same; that the company failed to pay such bonds when due; that a suit is brought against the company to recover the same, and that the company interpose an answer as a defense, that such a contract was *ultra vires*, and, therefore, absolutely void. Would this be a good defense under the circumstances of the case? Would the rights of the plaintiff be different if he was a *bona fide* holder of the bonds by assignment of the same before due, having purchased them of the payee, without any actual notice of the consideration for which they were given, or any knowledge of the corporate powers of the maker, except such as may be presumed from the creating acts of the corporation?

In a recent case in Illinois, the questions we have presented have been ably considered by Chief-Justice Lawrence. He says: "It is said by counsel for the complainant that a corporation is not estopped to say in its defense that it had not power to make

of the property transferred did not appear to exceed the amount of damages decreed, and as no offer had been or now was made to pay the damages, and in view of all the other circumstances of the case, the transfer should be sustained. The statutory provision forbidding the assignment by a corporation of its property in contemplation of insolvency has no application to such a case. In Lewis v. Jeffries, 86 Penn. St. 346, it was held that the provision of the Pennsylvania Const. of 1874, art. 16, § 7, prescribing the mode in which the indebtedness of corporations is to be incurred, and the act of 1874, carrying the same into effect, do not preclude the collection of a mortgage debt of a bank whose charter of 1871 authorized such debt and mortgage.

a contract sought to be enforced against it, for the reason that if thus estopped its powers might be indefinitely enlarged. While the contract remains unexecuted on both sides, this is undoubtedly true, but when, under cover of this privilege, a corporation seeks to evade the payment of borrowed money on the ground that although it had power to borrow money, it expended the money borrowed in prosecuting a business which it was not authorized to prosecute, it is pressing the doctrine of *ultra vires* to an extent that can never be tolerated, even though the lender of the money knew that the corporation was transacting a business beyond its chartered powers, and that his money would be used in such business, provided the business itself was free from any intrinsic immorality or illegality. Neither is it correct to say that the application to corporations of the doctrine of equitable estoppel, where justice requires it to be applied (as when under a claim of corporate power, they have received benefits for which they refuse to pay, from a sudden discovery that they had not the powers they had claimed), can be made the means of enabling them indefinitely to extend their powers. If it were true it would be an insuperable objection to the application of the doctrine, even for the purpose of preventing injustice in individual cases. But it is not true. This doctrine is applied only for the purpose of compelling corporations to be honest, and after whatever mischief may belong to the performance of an act *ultra vires* has been accomplished. But while a contract remains executory, it is perfectly true that the powers of corporations cannot be extended beyond their proper limits for the purpose of enforcing a contract. Not only so, but on the application of stockholders, or any other person authorized to make the application, a court of chancery would interfere and forbid the execution of a contract *ultra vires*. So, too, if a contract *ultra vires* is made between a corporation and another person, and while it is yet wholly unexecuted, the corporation recedes, the other contracting party would probably have no claim for damages.[1] But if such other party proceeds in the performance

[1] Such contracts, as are entirely foreign to the objects and purposes for which the corporation was formed or which are outside its express or implied powers, are void and cannot be enforced against it. Rock River Bank v. Sherwood, 10 Wis. 230. But where a corporation contracts in reference to matters within its powers, but in doing so exceeds its powers, the contract

of the contract, expending his money and his labor in the production of values which the corporation appropriates, we can never hold the corporation excused from payment on the plea that the

is but void and the person with whom the contract was made cannot set up such violation of its corporate powers to defeat the contract. Cannon v. McNab, 48 Ala. This doctrine is well stated and illustrated in Littlewort v. Davis, 50 Miss. 403, which was a suit in equity to enforce an absolute deed conveying lands as a mortgage to secure a loan to the defendant. The objection urged to the suit was that the trustees were only authorized to loan money by statute, on promissory notes with good personal securities, and consequently that a loan secured by mortgage was void. Simrall, J., in passing upon this question, said: "A loan of the school fund upon mortgage or security other than that named in the statute would have been a misapplication of the fund for which the trustees would have been personally liable. Lindsey v. Marshall, 12 S. & M. 590. Whilst this is so, it does not necessarily follow that the borrower can set up, as a ground to defeat his security, that the statute did not allow a loan upon other than personal security.

* * * "If," said he, "a corporation makes a contract *outside* of the purposes of its creation, it is void, because it has no power over the subject in reference to which it acted; but if it contracts with reference to a subject within its powers, but in so doing, exceeds them, the person with whom it deals cannot set up such violation of the franchise to avoid the contract. Haynes v. Covington, 13 S. & M. 411; Banks v. Poitaux, 3 Rand. 136; Fleckner v. U. S. Bank, 8 Wheat. 353; Com'l Bank v. Nolan, 7 How. 508; Little v. O'Brien, 9 Mass. 423; Wade v. American Colonization Society, 7 S. & M. 663. It might be ground for the resumption of the franchise by the state." In The Bank of S. Carolina v. Hammond, 1 Rich. (S. C.) 281, a similar question was raised. In that case the charter of the plaintiff corporation directed that loans upon a long time should be secured by mortgage; but the loan sought to be collected, which was for a long time, was not secured by mortgage but by sureties, and the court held that it was enforceable. In a New York case, Mott v. United States Trust Co., 19 Barb. 568, the charter of a savings bank required that its funds should be invested in or loaned on public stocks, or other personal security should be taken from the borrower, but a loan made to the defendant without *any* security was held binding. See also to the same effect, U. S. Trust Co. v. Brady, 20 id. 119. In Bank of North Liberties v. Cresson, 12 S. & R. 306, where the charter of the bank required that a certain species of security should be taken from its officers for the faithful performance of their duties, a different kind of security taken for that purpose was held binding. So, where city bonds were required to be made payable at the city treasury, yet bonds made payable elsewhere were held not to be thereby invalidated, but only, that the provision making them payable elsewhere was void. Sherlock v. Winnetka, 68 Ill. 530. In Hough v. Cook County Land Co., 73 Ill. 23, a bill in equity was brought by the plaintiff against the defendant, which claimed to be a corporation established under the laws of Illinois, with power to borrow and lend money; to take lands and mortgages as security; to purchase lands and make improvements thereon, by erecting buildings for the purpose of renting the same; to hold buildings and lots for the purpose of improving and renting the same, and to do a general loan business and take lands, mortgages and notes to secure the loans. Appellant, believing that appellee was possessed of the powers it claimed, and that it was authorized by its charter to buy land and issue its stock in payment therefor, to loan money, etc., on the 24th day of May, 1873, contracted with it to sell and convey to it certain lands in Cook county, which are particularly described in the bill, in consideration that appellee would issue to him three hundred and sixty-five shares of its stock and would, also, loan him eighty per cent in money of the stock and hold the stock as collateral security on

contract was beyond its power. Take, for example, the case of a corporation chartered to build a railway from Chicago to Rock Island. Under such a charter the company would have no power

the loan; the loan to be for one year from that date, with interest at ten per cent per annum till due, and twelve per cent per month after maturity, with power on failure to pay, to sell, etc. The land was conveyed, the money loaned and the stock issued and pledged as collateral security, in conformity with the terms of the agreement. Since the transaction occurred, appellant has been advised, by counsel, that appellee had no authority to take the land and issue the stock; that it professes to act under authority of "an act to incorporate the Land Improvement and Irrigation Company," approved March 1, 1867, and the change of name to the Cook County Land Company, by vote of its stockholders on the 20th of July, 1872, at which time its capital stock was increased, in accordance with an act of the legislature in regard to changing names and increasing stock of corporations, approved March 26, 1872; that the change of name and increase of stock was unauthorized and void, and all the authority appellee had, by its charter, was to purchase lands for the purpose of irrigation and improvement, for the raising of crops thereon and the sale and disposal thereof, when so improved. It is alleged that the power vested in appellee by its charter, which is made part of the bill as an exhibit, was to examine, survey and purchase lands and interests therein, water-courses or interests therein, for the purpose of irrigating the lands that might be so purchased, and facilitating crops in dry seasons and to improve and cultivate such crops, chiefly as require irrigation to produce the largest returns, and that appellee had no power to purchase and hold lands for any other purpose; that appellee has not purchased any lands for the purpose of irrigation, or for any object contemplated by its charter, but that appellee has purchased a large quantity of land, worth above $600,000, holds improved and unimproved city real estate, announces its intention to erect buildings on part of its vacant city property, and that it has been, since its organization, and was at the time the bill was brought, engaged in purchasing lands, city lots, the improvement of said lots for the purpose of sale and rental, and in the purchase of tax certificates, and in loaning money on bonds and mortgages, etc. Appellant insists that the purchase of the land and the loaning of the money and taking notes therefor were contrary to positive statutes and, therefore, void.

The act under which the defendant first became incorporated, by its first section, empowers —

'The Land Improvement and Irrigation Company to have, hold, possess and enjoy, by themselves, successors and assigns, forever, lands tenements, hereditaments, goods, chattels, choses in action and effects of every kind, and the same to grant, sell, alien, invest, loan and dispose of.

"And the fourth section of that act is as follows:

"The chief objects of this association shall be to examine, survey and purchase lands or interests in lands, water-courses or interests therein, which are, as near as may be, adapted by nature to the use of water to irrigate the same, to facilitate the growth of crops in dry seasons and to improve and cultivate the same for such crops, chiefly, as require irrigation to produce the largest returns. The statute under which appellee changed its name and increased its capital contains this proviso: 'And provided, further, that any corporation, other than corporations for manufacturing purposes, availing itself of, or accepting the benefit of, or formed under this act (except the mere change of name), shall be subject to the general laws of this state, now in force or which may hereafter be passed, regulating corporations of like character.' One of the general laws regulating the corporations provides that no foreign or domestic corporation established in any way for the pecuniary profit of its stockholders shall purchase or hold real estate in this state, except as provided for in that act. Section 10 of that act authorizes corporations to own, possess and enjoy

to build steamboats, for the purpose of running a line of such vessels between Rock Island and St. Louis. But suppose the company, notwithstanding the want of power, should make a con-

so much real and personal estate as shall be necessary for the transaction of their business [and] to sell and dispose of the same when not required for the uses of the corporation. And it contains a proviso that all real estate so acquired in satisfaction of any liability or indebtedness, unless the same may be necessary and suitable for the business of such corporation, shall be offered at public auction, at least once every year, etc.

"In case any corporation shall fail to sell such lands, it is made the duty of the state's attorney, of the proper county, to proceed against the corporation, by information, to the end that such lands may be decreed to be sold. And the first section authorizes corporations to be formed in the manner by the act provided for any lawful purpose, except banking, insurance, real estate brokerage, the operation of railroads, and the business of loaning money." "Conceding that in determining the appellee's powers, these several provisions must be construed together," said Scholfield, J., "and that appellant's construction that appellee has authority only to examine, survey and purchase lands, or interest in lands, watercourses, or interest therein, which are, as near as may be, adapted by nature to the use of water to irrigate the same, etc., is correct, does it follow that the title to lands conveyed to and held by it for other and different purposes, is absolutely void and may be so declared at the instance of the grantee seeking, for that cause, to repossess himself of the property? The authorities cited in the brief for appellant, Bank United States v. Owen, 2 Pet. (U. S.) 538; Munsell v. Temple, 3 Gilm. 93; Cin. Mut., etc., v. Rosenthal, 55 Ill. 91; Green v. Seymour, 3 Sandf. Ch. 292; Smith v. Bromley, Doug. 696; Browning v. Morris, Cowp. 790, recognize the general doctrine that a contract prohibited by statute, or against the manifest policy of the law, is void; and in Carroll v. East St. Louis, 67 Ill. 568, also cited by appellant, the question before us now, whether a corporation created in another state for the sole purpose of buying and selling lands has power to purchase and hold title to lands in this state, and we held that it has not, because it would tend to create perpetuities and is against the general policy of our legislation. In a more recent case, Starkweather v. The Bible Society, 72 Ill. 59, the same doctrine was reasserted."

There seems to us, however, to be this important distinction between the principle recognized in these authorities and that applicable here. There, by reason of the express or implied prohibition of the law, the party is absolutely denied the power to acquire any rights through the particular contract. Here there is power to purchase, receive conveyances and hold title to lands, but it is prohibited that they shall be purchased and held for other than a prescribed purpose. In the one case, the principle affects the power of acquisition; in the other, it affects simply the use to which the acquisition shall be applied. There can be no question of the right of a stockholder to the aid of a court of equity against a corporation, to prevent it from misapplying its capital, or from doing acts which would amount to a violation of its charter; but the frame and prayer of the bill, in the present case, do not contemplate such relief, and we do not conceive it could be granted without material amendment, to make which, leave should have been asked in the court below. But the appellee being authorized to purchase and hold lands, and the appellant having sufficient capacity to convey, the title was obviously vested in the appellee by the delivery of the deed, and the question whether the appellee has by its purchase and use of lands exceeded the powers conferred by its charter, is one between the state and the appellee with which the appellant, as a grantor simply, has no concern. Banks v. Poiteaux, 3 Rand. (Va.) 141; Barrow v. N. & C. T. Co., 9 Humph. 304; Chambers v. St. Louis, 29 Mo. 576; Att'y-Gen'l v. Tudor Ice Co., 104 Mass. 239; Whitman Mining Co. v. Baker, 3 Nev. 291; Hayward v.

tract for the building of a vessel, and it is built by the contractor and accepted and used by the railway, would any court permit the corporation, when sued for the value of the vessel, to excuse itself from payment, on the ground that, although it has and uses the steamer, it had no authority to do so by its charter? Or, suppose that, instead of having a vessel built by a contractor, it employs a superintendent to build it, and hires mechanics by the day, could it escape the payment of their wages on the ground that it had employed them in a work *ultra vires?* In cases of such character, courts simply say to corporations, you cannot, in this case, raise the question of your power to make the contract. It is sufficient that you have made it, and by so doing have placed in your corporate treasury the fruits of others' labor, and every principle of justice forbids that you be permitted to evade payment by an appeal to the limitations of your character. We are aware that cases may be cited in apparent conflict with the principles here announced, but the tendency of recent decisions are in harmony with them. While courts are inclined to maintain with vigor the limitations of corporate action whenever it is a question of restraining corporations in advance from passing beyond the boundaries of their charters, they are equally inclined, on the other hand, to enforce against those contracts, though *ultra vires*, of which they have received the benefits."[1]

SEC. 235. **When neither party can avoid the contract, though ultra vires.** — If contracts between corporations and individuals are absolutely void because *ultra vires*, then this defense could be set up by the individual as well as the corporation; and where it would be greatly to the interest of the individual so to do, the corporation, though suffering great pecuniary loss thereby, could not avoid such a defense on the part of the other contracting party. But it is settled, by the preponderance of authority, that

Davidson, 41 Ind. 212; Natoma W. & M. Co. v. Clarkin, 14 Cal. 544. It is well observed by FIELD, J., in Natoma W. & M. Co. v. Clarkin, *ante*, that "it would lead to infinite embarrasssments if in suits by corporations to recover the possession of their property, inquiries were permitted as to the necessity of such property for the purposes of their incorporation and the title made to rest upon the existence of that necessity."

[1] Bradley v. Ballard, 55 Ill. 417. See, also, Gas Co. v. San Francisco, 9 Cal. 453.

neither the corporation nor an individual, entering into a contract with it, can avoid a contract of sale and purchase of property where the property is delivered, nor can the individual reclaim the property sold, or the corporation avoid the payment of the price of the same, on the ground that it had no authority to make the contract so long, at least, as it retains it and enjoys the benefit of the contract.[1]

Sec. 236. **Same continued** — Common principles of justice would require a corporation to pay for property actually received and appropriated, to repay money borrowed and expended, and to pay for labor and services actually received. If the agents or officers, make *ultra vires* contracts, they may be personally responsible to the stockholders for damages sustained, by reason of such contracts, and they may be restrained from entering into or executing such contracts by the stockholders, or perhaps creditors interested in the matter. But when such a contract is once executed, it would appear consonant with principles of justice and equity to sustain the contract, where the corporation has received the consideration, though executed on the part of the corporation in excess of authority of either the agents executing the same, or the corporation.[2]

This doctrine seems well sustained by the current of modern decisions. In many cases it has, it is true, been held that on

[1] Parish v. Wheeler, 22 N. Y. 494; Bissel v. The Michigan, etc., R. Co., id. 258; White v. Franklin Bank, 22 Pick. 181; Tracy v. Talmage, 14 N. Y. 162; De Groff v. American Linen, etc., Co., 21 id. 124; Fester v. La Rue, 15 Barb. 323; Gould v. Town of Oneonta, 3 Hun, 401; Hazelhurst v. Savannah, etc., R. Co., 43 Ga. 54; Southern L. Ins. Co. v. Lanier, 5 Fla. 110. A stockholder who has acquiesced in an act done by the corporation which is *ultra vires* simply because in excess of its powers is estopped from afterward denying the validity of the acts as, where he has voted for an assessment which is *ultra vires*, or with knowledge of the facts made payments upon it. Ossipee Mf'g Co. v. Canney, 54 N. H. 295; Macon, etc., R. R. Co. v. Vason, 57 Ga. 314; Kansas City Hotel Co. v. Harris, 51 Mo. 464; Williamette Freighting Co. v. Stannus, 4 Oregon, 261. And a corporation, which has borrowed money and used it for a purpose beyond its corporate powers, is estopped from setting up in defense to an action to recover the loan, that the lender knew that the money was to be used for *ultra vires* purposes, unless the use was of an immoral or illegal character. Bradley v. Ballard, 55 Ill. 413.

[2] Zabriskie v. C. C., etc., R. Co., 23 How. (U. S.) 381; Cary v. Cleveland, etc., R. Co., 29 Barb. 35; Argenti v. San Francisco, 16 Cal. 255; McCluer v. Manchester, etc., R. Co., 13 Gray, 124; Chapman v. M. R., etc., R Co., 6 Ohio St. 137; Hale v. Mutual Fire Ins. Co., 32 N. H. 297; Railroad v. Howard, 7 Wall. 413.

technical grounds a recovery could not be had on the contract itself, where it was *ultra vires* of the corporation, but that a recovery might be had for the consideration of the contract thus entered into. In other cases it has been maintained that where corporations have received the benefit of such contracts, they should be required to perform them, if they are not against positive law or public policy.[1]

It was observed by BACON, J., in the New York court of appeals, on this subject, as follows: "If it be conceded that the defendants had no power to enter into the contract of sale in this case, and bind the company to perform the obligations assumed, viewed as a mere question of corporate power, yet, having undertaken to do so, and having received the full consideration agreed to be paid by the plaintiff, and he having fulfilled his entire contract, they cannot now be permitted to set up that excess of authority to excuse them from that part of the contract which imposes an obligation upon them. This principle has been repeatedly held as applicable to an individual attempting to screen himself from liability when contracting with a corporation, as in the case of a corporation when seeking to escape responsibility on the plea of *ultra vires* for acts deliberately done with all the usual and needful formalities, and where they have received the entire benefit they contracted for, such a defense should no longer be tolerated in our courts. Where the question is merely as to the power to contract, a party who has had the benefit of the contract should not be permitted, especially where there is no unlawful intent charged upon the other party, and he is in no sense in *pari delicto*, to question its validity. To deny relief to a plaintiff thus situated, would be substantially to secure to the party deliberately violating one of the laws of its existence, and when no guilty complicity can be charged upon the other party, the fruits of an illegal transaction, and operate as a premium upon repudiation and fraud."[2]

[1] Chicago Building Soc'y v. Crowell, 65 Ill. 458.

[2] DeGraff v. American, etc., Co., 21 N. Y. 127. In Parish v. Wheeler, 22 id. 503, COMSTOCK, C. J., observes, in relation to this question: "There is certainly no moral turpitude if a railroad corporation buys a steamboat or builds a church, nor is there any legal turpitude. It may be an excess of power or a private breach of trust in respect to its stockholders. The latter may complain or the state may interpose, but corporations themselves, like individuals, in dealing with other parties, must live up to the rules of common honesty * * *. Contracts with corporations, made in excess of

Sec. 237. **Form of the action in case of ultra vires contracts.** — It has in some cases been held that where the contract is *ultra vires*

their powers, which are purely executory on both sides, and where no wrong will be done if the parties are left in their previous situation, I am willing to agree, should not be enforced, because such contracts contemplate an unauthorized diversion of corporate funds, and therefore a breach of private trust.

"Executed dealings of corporations must be allowed to stand for and against both parties, when the plainest rules of good faith so require * * *. The most favorable statement of the particular matter now in question is, that the railroad corporation, in excess of the powers conferred upon it by its charter, purchased and paid for a steamboat and several canal boats; that being in possession and use of the property, in connection with its regular business, it mortgaged the same property to its creditors, the plaintiff, taking back charter-parties for a limited period, and also a stipulation for a reconveyance, if the debt should not be paid at the time agreed on; that the plaintiff, taking the usual course in such cases, caused a part of the property to be sold after a default had occurred, and received the proceeds of that sale, which nearly or quite satisfied the debt. In all this I can see nothing unlawful except the want of legal power or right to buy the property.

"But it was actually bought, paid for and delivered, and, therefore, become a part of the estate and assets of the company. The company could sell or pledge it to a creditor, and could redeem the pledge by paying the debt. In acquiring the ownership of such property, the corporation may have usurped a right not granted by its charter. But the acquisition was, nevertheless, a fact which no legal refinement can deny. It was a fact too, having all the legal relations and incidents of any other fact of ownership. I think it will not be questioned, that an execution creditor of the company could levy on this property and sell it for the satisfaction of its debt, and having thus obtained a satisfaction, I do not think that he could deny that he was paid, upon any theory of excess of corporate power, and levy again upon other property.

"So, if the creditor, instead of proceeding to judgment and execution for his debt, takes a pledge or mortgage, and, by the exercise of the power of sale, obtains the cash for his demand, I do not see how he can raise the inquiry whether the corporation debtor violated the trust duty, which it owed to its shareholders in the purchase of the chattels pledged or mortgaged.

"So long as no one else questions the title thus acquired, and the property is made productive in the satisfaction of the debts, it would be strange if the creditor can, upon such ground, claim that the debt still exists. And such is, in effect, this case. The security of the plaintiff, as I have said, was in the nature of a mortgage. The stipulation to reconvey on payment of his claims provided for nothing beyond the legal result of the transaction. The reconveyance, it is true, was to be made to the appointee of the corporation; but that clause considered by itself involved nothing illegal, or even *ultra vires*. The plaintiff actually sold a part of the property for the payment of his debt, and he received the money. No one but himself questions, or can question, his right to make the security available in that manner. He does not pretend or suggest that he cannot hold the money thus obtained. On the contrary, he insists upon retaining it against all the world; but at the same time claims that his debt is neither paid nor reduced. Much has been said in the books (sometimes I think without reflection), about the powers of corporations and the consequences of exceeding those powers. But no authority can be found to justify the position of the plaintiff in respect to the matter here considered." See, also, Bissel v. Michigan, etc., R. Co., 22 N. Y. 258; Hazelhurst v. Savannah, etc., R Co., 43 Ga. 54; Bradley v. Ballard, 55 Ill. 413. In Bissel v. The Michigan, etc., R. Co, 22 N. Y. 258, Selden, J., in discussing the question, makes a distinction based upon knowledge, or want of knowledge, of the party dealing with the corporation

but the corporation has received property, or the consideration of a contract, and refuses to fulfill its contract, or to pay its obli-

He observes: "There are, no doubt, cases in which a corporation would be estopped from setting up the defense, although its contract might have been really unauthorized. It would not be available in a suit brought by a *bona fide* indorsee of a negotiable promissory note, provided the corporation was authorized to give notes for any purpose; and the reason is, that the corporation, by giving the note, has virtually represented that it was given for some legitimate purpose, and the indorsee could not be presumed to know the contrary. The note, however, if given by a corporation absolutely prohibited by its charter from giving notes at all, would be voidable not only in the hands of the original payee, but in those of any subsequent holder, because all persons dealing with a corporation are bound to take notice of the extent of its chartered powers.

"The same principle is applicable to contracts not negotiable. Where the want of power is apparent upon comparing the act done with the terms of the charter, the party dealing with the corporation is presumed to have knowledge of the defect, and the defense of *ultra vires* is available against him. But such a defense would not be permitted to prevail against a party who cannot be presumed to have had any knowledge of the want of authority to make the contract. Hence, if the question of power depends not merely upon the law under which the corporation acts, but upon the existence of certain extrinsic facts, resting peculiarly within the knowledge of the corporate officers, then the corporation would, I apprehend, be estopped from denying that which, by assuming to make the contract, it had virtually affirmed.

"A question analogous to this arises, where public officers who have done something in contravention of the statute under which they act are afterward sought to be estopped from setting up that their act was unauthorized. It was insisted by counsel in the case of Regina v. White, 4 Ad. & El. (N. S.) 101, that for public reasons, officers so situated were not estopped; but Lord DENMAN said: 'We have held that this is true only of a statute the contents of which are publicly known; such a statute is to have effect whatever dealings may take place; but when the persons acting, whether trustees for public purposes or not, have done any act which was not known to the parties with whom they were afterward dealing, such an act cannot prevent the estoppel arising from that subsequent dealing.' This doctrine, which was also held in the case of Doe, *ex dem.* Levy, v. Horne, 3 Ad. & El. (N. S.) 757, will be found, when carefully examined, to sustain the exception which I have suggested in the case of corporations. But aside from these exceptional cases, it is, in my judgment, not only entirely clear upon principle, but abundantly settled by authority, that the contract of a corporation, if unauthorized by its charter, is an illegal contract, and that the corporation is not estopped from setting up this illegality in defense to an action brought upon it.

"In referring to the cases which support these views, I will notice the English cases first. There are three classes of cases in England in which the question of *ultra vires* arises, viz.: first, cases in which one or more of the shareholders seeks to restrain the officers of the corporation from engaging in transactions unauthorized by the charter; second, actions brought by third persons against corporations to enforce their contracts, in which the defense relied upon is, that in making the contract the corporation exceeded its corporate powers; and third, similar actions, in which the defense is that the directors had exceeded, not the powers conferred upon the entire corporation by law, but those conferred by the shareholders upon the directors or managing officers by deed.

"These three classes of cases differ materially in their nature and principles, and if we would avoid confusion must be kept entirely distinct in investigating the subject. Those of the third class have no bearing upon the question we are discussing. There

gations, given as the consideration, no recovery can be had upon such contract; but that the party thus contracting with the corporation, and delivering such property or paying such consideration, is entitled to recover the value of the property thus delivered or the consideration paid, on an implied undertaking on the part of the corporation to pay for the value or amount of the same, though the contract itself is void as being *ultra vires*. This doctrine is entirely technical and can hardly be considered as

are in England a class of corporations organized under general laws, which do not specify the manner in which the objects and purposes of the incorporation are to be effected, but leave this to be arranged by a 'deed of settlement' between the corporators themselves. By this deed the companies prescribe and limit the powers and functions of their various officers, so far as they are left uncontrolled by the statute and the general laws of the kingdom. Now it is plain that there is no analogy between an act which merely transcends the limits of this deed of settlement and one which violates the provisions of the organic act. The deed of settlement is the private act of the shareholders, and its provisions have respect solely to their private interests. It is a mere power of attorney, and bears no resemblance to a law enacted with a view to the interests of the public. There is evidently no question of public policy involved, when the question is, whether the officers have exceeded the authority conferred by this deed. The case of the Royal British Bank v. Turquand, 5 El. & Bl. 248, is one of this class of cases. By comparing the language of Lord Campbell in this case with that used by him upon another occasion, we shall obtain a clear view of the distinction here adverted to. In the case cited, the action was upon a bond signed by two of the directors, and the question was, not whether the giving of the bond exceeded the powers which the corporation itself had a right to assume, but whether it was authorized as between the shareholders and the directors by the deed of settlement. Lord Campbell, in delivering his opinion, said: 'A mere excess of authority by the directors, we think, would not amount to a defense.' Of course, by this was meant merely an excess of authority by the directors as the agents of the stockholders, and not an unauthorized assumption of power as between the corporation and the public.

"In the Mayor of Norwich v. The Norfolk Railroad Company, 30 Eng. Law & Eq. 120, the same learned judge fully recognizes the distinction I take, and shows that by the remark just quoted he by no means meant to say that corporations were bound by contracts which are *ultra vires*, as between them and the public. He then said: 'The mere circumstance of a covenant by the directors in the name of the company being *ultra vires* as between them and the *shareholders* does not necessarily disentitle the covenantee to sue upon it * * *. But suppose that the directors of a railway company should purchase a thousand gross of green spectacles as a speculation, and should put the seal of the company to a deed covenanting to pay for these goods, here would be a clear excess of authority on the part of the directors * * *; this would be an *illegal* contract to misapply the funds of the company, and the illegality might be set up as a defense.'

"The phrase '*ultra vires*' is applied in the English cases both to acts which simply exceed the powers conferred by the deed of settlement upon the officers as the agents of the shareholders, and acts which transcend the powers conferred by law upon the entire corporation. This indiscriminate use of the phrase is calculated to mislead, unless the distinction referred to is observed. It is evident that the class of cases to which that of Royal British Bank v. Turquand belongs have no bearing upon the question under consideration, and hence they will be no further noticed."

sound in principle. Such a doctrine only changes the form of the remedy and does not affect the substantial rights of the parties. In fact a claim in such a case, on a *quantum meruit*, or *quantum valebat*, might give the individual even more than on the contract; and if the same amount might be recovered in either form of action, no practical benefits would be secured by the adoption of the doctrine, that the contract, being in excess of authority, is void.[1] But the distinction has, however, been frequently made, both in this country and in England.

Mr. Brice observes: "To say that a corporation cannot sue or be sued upon an *ultra vires* agreement is one thing. To say that it may retain the proceeds thereof which have come into its possession, without making any compensation whatever to the person from whom it has obtained them, is something very different."[2]

In an action by a corporation in New York, for money loaned, where the defense was, the want of power in the company to make loans, the supreme court of that state uses the following language: "It ill becomes the defendants to borrow from the plaintiff one thousand dollars for a single day, to relieve their immediate necessities, and then to turn around and say, 'I will not return you this money, because you had no power in your charter to lend it.' Let them first restore the money, and then it will be time enough for them to discuss with the sovereign power of the state of Connecticut [where the corporation was created] the extent of the plaintiff's chartered privileges. We shall

[1] It is affirmed by Mr. Brice that, "though no action will lie against a corporation merely on the ground that it has received and adopted the benefit of a contract entered into without due formalities on its part, yet under certain exceptional circumstances it may be used on the consideration so received, and, *e contrario*, it seems that it may always maintain assumpsit or debt against a person who has received from it the benefit of such a contract. * * * It was at one time thought that, though a corporation could not be sued on a contract whilst it remained executory, they might be so on one which had been executed; but the distinction does not now exist." Brice's Ultra Vires, 371; East London W. Co. v. Bailey, 4 Bing. 283, Mayor, etc., v. Charlton, 6 M. & W. 815; Paine v. Strand Union, 8 Q. B. 326. See, also, Moss v. Rossie Min. Co., 5 Hill, 137; Peterson v. Mayor, etc., 17 N. Y. 449; Hooker v. Eagle Bank, 30 id. 83; McCutcheon v. Steamboat Co., 13 Penn. St. 13; Hague v. City of Philadelphia, 48 id. 527; City of Baltimore v. Reynolds, 20 Md. 1; Richard v. Warren Co., 31 id. 381; Zottman v. San Francisco, 20 Cal. 96; Thomas v. Dickenson, 12 N. Y. 364; Curtis v. Leavitt, 15 id. 47; Bonesteel v. Mayor, etc., 22 id. 162.

[2] Brice's Ultra Vires, 618

lose our respect for the law when it so far loses its character for justice as to sanction the defense here attempted." [1]

Sec. 238. But the doctrine we have been considering would not be applicable where the power assumed by the corporation is expressly prohibited by law or is against public policy.[2]

Thus, in an action on a note issued by a corporation, where such act was expressly prohibited, it was said by Bronson, J., that, "as the issuing of notes was expressly prohibited by law, it is impossible to maintain that they are valid securities. To hold that they can be enforced against the bank would be going very far toward defeating the end which the legislature had in view. * * * The legal liability on account of which the notes were issued still remains; but the notes themselves are void." [3]

Sec. 239. **The doctrine of ultra vires applied to agents.**—It will be evident, from what has been said in reference to the doctrine of *ultra vires*, that the general principles of this doctrine would be applicable to all agents of corporations. Their authority to act, as we have seen, cannot exceed the corporate powers, and may be less; but where they are less, and where the agent exceeds the authority conferred by law, the corporation, like any other principal, may expressly or by its acts ratify the acts of the agent.[4]

[1] Steam Nav. Co. v. Weed, 17 Barb. 378. See, also, Argenti v. City of San Francisco, 16 Cal. 255; Bank v. Hammond, 1 Rich. L. 281; Southern, etc., Co. v. Lanier, 5 Fla. 110; Silver Lake Bank v. North, 4 Johns. Ch. 370; Potter v. Bank of Ithaca, 5 Hill, 490; Suydam v. Morris Canal, etc., id. 491; Sacketts Harbor Bank v. Lewis Co. Bank, 11 Barb. 213; Tracy v. Talmage, 14 N. Y. 162.

[2] Curtis v. Leavitt, 15 N. Y. 94.

[3] Leavitt v. Palmer, 3 N. Y. 19. But see *post*, § 270; State Board of Agriculture v. Citizens' Street R. Co., 47 Ind. 407; Kneeland v. Gilman, 24 Wis. 39.

[4] The presumption against corporations, on the ground of acquiescence or implied ratification, is illustrated by the case of Zabriskie v. Cleveland, Columbus and Cincinnati Railway, 23 How 381, where the facts were as follows: By the general railway law in Ohio, one railway company was allowed to aid in the construction of other lines, by subscriptions to the capital stock of the companies, provided that in a meeting of the stockholders, called for that purpose, two-thirds of the stock represented should assent thereto. And by a subsequent act, it was provided that any existing company might accept this provision; and by filing a certificate of such acceptance with the secretary of state make it a part of its charter. In this case the defendants, without having complied with either of the foregoing conditions, made a guarantee of $400,000, of the bonds of the Columbus, Piqua and Indiana Railway.

A bill was brought by the plaintiff, a member of defendants' company, to

SEC. 240. **The doctrine of ultra vires in cases of negotiable instruments.**— We have already indicated the effect of acts *ultra vires*, on contracts made by private corporations, with other parties. Would *bona fide* assignees of negotiable instruments, such as bonds, coupons or notes, stand in any better position than the payee or original holder of these instruments? If the corporation had authority to issue these instruments for any purpose, although in respect to the particular issue it may have been in excess of authority, the purchaser would be protected if he purchased the same in good faith, for a valuable consideration and without notice, actual or constructive, of the particular informality or excess of authority on the part of the corporation or its agents. If the corporation or its agents, having authority to issue its notes or bonds, either by the express provisions of law or its constating acts or implied authority derived therefrom, such notes or bonds may still be issued for some unlawful purpose, and in that respect be considered *ultra vires*. But in the hands of an inno-

restrain them from paying the interest on the bonds so guaranteed by them, upon the ground that the defendants' directors had exceeded their authority in making the guaranty. Some of the other stockholders by permission of the court below became defendants in the suit. The court held, that, as between the parties to the present suit, the acceptance of the provisions of the general railway law and of the subsequent statute might be presumed from the conduct of the corporators, in not sooner taking steps to nullify the action of the directors in making the guaranty; and that it was not competent for the corporation, after having made such guaranty, received the benefits of it, and allowed the bonds to go into general circulation on the faith of its responsibility, now to repudiate them upon the ground of their own omission to comply with the requirements of the statute. And especially were the bonds binding upon the defendants since the guaranty by the directors had been expressly ratified by a resolution of the stockholders at a meeting held subsequently, and at this meeting the plaintiff's stock was represented.

In Bargate v. Shortridge, 5 H. L. C. 297, Lord ST. LEONARDS said: "It does appear to me that if, by a course of action, the directors of a company neglect precautions which they ought to attend to, and thereby lead third persons to deal together as upon real transactions, and to embark money or credit in a concern of this sort, these directors cannot, after five or six years have elapsed, turn round, and themselves raise the objection that they have not taken these precautions, and that the shareholders ought to have inquired and ascertained the matter. * * * The way, therefore, in which I propose to put it to your lordships, in point of law, is this: the question is not whether that irregularity can be considered as unimportant, or as being different in equity from what it is in law, but the question simply is, whether, by that continued course of dealing, the directors have not bound themselves to such an extent that they cannot be heard in a court of justice to set up, with a view to defeat the rights of the parties with whom they have been dealing, that particular clause enjoining them to do an act which they themselves have neglected to do."

cent holder, and especially as we have seen, where the corporation has received the consideration therefor, they could not defeat the claims of the holder, on the ground that they exceeded their authority in executing it. If there is nothing on the face of negotiable instruments executed by a corporation to indicate that they are *ultra vires*, and it had power to issue such instruments in the conducting of its legitimate business, a defense on that ground could not be set up to defeat a recovery thereon by a *bona fide* holder for value, without notice of the excess of authority in issuing them for the particular purpose for which they were issued.[1] But where two distinct railroad companies consolidated without authority, and they were placed under the same management, it was held that the indorsee of a note given by the managers of the consolidated company for the purchase of a steamboat could not recover on it.[2]

[1] Monument Bank v. Globe Works, 101 Mass. 57; Attorney-General v. Insurance Co., 9 Paige, 470; Bissell v. Michigan, etc., R. Co., 22 N. Y. 258; Mechanics' Banking Association v. White Lead Co., 35 id. 505; Lexington v. Butler, 14 Wall. 282; Morford v. Farmers' Bank, 26 Barb. 568; Bridgeport City Bank v. Empire, etc., Co., 30 id. 421; Central Bank v. Same, 26 id. 23; Bank of Genesee v. Patchin, 13 N. Y. 309. „As a general rule, a corporation, unless constrained by law or the constating instruments, may, as incident to its business, receive and transfer notes and bills. Buckley v. Briggs, 30 Mo. 452; Frye v. Tucker, 24 Ill. 180; Hardy v. Merriweather, 14 Ind. 203; Lucas v. Pitney, 27 N. J. L. 221.

[2] Pearce v. Madison, etc., R. Co., 21 How. 441.

In this case Justice CAMPBELL observed: "Now, persons dealing with the managers of a corporation must take notice of the limitations imposed upon their authority by the act of incorporation. Their powers are conceded in consideration of the advantage the public is to receive from their discreet and intelligent employment, and the public have an interest that neither the managers nor stockholders of the corporation shall transcend their authority. In McGregor v. The Official Manager of the Deal and Dover Railway Co., 16 L. & Eq. 180, it was considered that a railway company incorporated by act of parliament was bound to apply all the funds of the company for the purposes directed and provided for by the act, and for no other purpose whatever, and that a contract to do something beyond these was a contract to do an illegal act, the illegality of which, appearing by the provisions of a public act of parliament, must be taken to be known to the whole world. In Coleman v. The Eastern Counties Railway Co., 10 Beav. 1, Lord LANGDALE, at the suit of a shareholder, restrained the corporation from using its funds to establish a steam communication between the terminus of the road (Harwich) and the northern ports of Europe. The directors of the company vindicated the appropriation as beneficial to the company, and that similar arrangements were not unusual among railway companies. Lord LANGDALE said: 'Ample powers are given for the purpose of constructing and maintaining the railway, and for doing all those things required for its proper use when made. But I apprehend that it has nowhere been stated that a railway company, as such, has power

SEC. 241. **Necessary or implied powers not ultra vires.** — It has been affirmed that a power to make notes or bills, or to accept bills, is not one of the incidents of a corporation; that the

to enter into all sorts of other transactions. Indeed, it has been very properly admitted that railway companies have no right to enter into new trades or businesses not pointed out by the acts. But it has been contended that they have a right to pledge, without limit, the funds of the company for the encouragement of other transactions, however various and extensive, provided that the object of that liability is to increase the traffic upon the railway, and thereby to increase the profit to the shareholders.

"'There is, however, no authority for any thing of that kind. It has been stated that these things, to a small extent, have been frequently done since the establishment of railways; but unless the acts so done can be proved to be in conformity with the powers given by the special acts of parliament, under which those acts were done, they furnish no authority whatever. In the East Anglian Railway Company v. The Eastern Counties Railway Company, 11 C. B. 803, the court say the statute incorporating the defendants' company gives no authority respecting the bills in parliament promoted by the plaintiffs, and we are therefore bound to say that any contract relating to such bills is not justified by the act of parliament, and not within the scope of the authority of the company as a corporation, and is therefore void.'

"We have selected these cases to illustrate the principle upon which the decision of this case has been made. It is not a new principle in the jurisprudence of this court. It was declared in the early case of Head v. Providence Insurance Company, 2 Cr. 127, and has been reaffirmed in a number of others that followed it. Bank of Augusta v. Earle, 13 Pet. 519; Perrine v. Ches. & Del. R. Co. 9 How. 172.

"It is contended, that because the steamboat was delivered to the defendants, and has been converted to their use, they are responsible. It is enough to say, in reply to this, that the plaintiff was not the owner of the boat, nor does he claim under an assignment of the owner's interest. His suit is instituted on the notes, as an indorsee; and the only question is, had the corporation the capacity to make the contract, in the fulfillment of which they were executed? The opinion of the court is, that it was a departure from the business of the corporation, and that their officers exceeded their authority.

"In Rutland and Burlington Railway Company v. Proctor, 29 Vt. 93, where the plaintiffs, a railway company, chartered with the usual privileges and limitations, in order to compete in business and improve the profits of their road, in all probability in good faith, purchased the boats and appurtenances of a corporation formed for carrying freight and passengers on Lake Champlain, and subsequently sold one of these boats and furniture to the defendants, and after the sale repaired the boat and furniture at a machine shop purchased of the transportation company, and brought an action for such furniture and repairs, it was held that they could recover. The court, REDFIELD, C. J., said: 'The defense is, that the contract of purchase by which the plaintiffs' company acquired the title of this boat and furniture, sold the defendants, and of the shop at which the repairs were done, was beyond their powers, or as denominated in the books, *ultra vires*. It does not appear that the stockholders of the plaintiffs' company have ever objected to their making the purchase, or running the boats in connection with their road.

"'If we regarded the question properly before the court for determination, we should not at first view, certainly, be inclined to question that such a purchase is beyond the powers of the company. And if the stockholders had applied to a court of equity at the time, to have the directors enjoined from making the purchase, the current of English decisions would probably have justified the injunction. And possibly had the state interfered by way of *scire facias* or *quo warranto*, the excess of power thus exercised by the company might

right to do so must be given either by the provisions of the law or by the constating instruments, although it may be conferred either by express provisions or by implication;' and this power

be regarded as sufficient reason for revoking their charter. We say this may possibly be so regarded, but it is not common in practice for the courts to declare the forfeiture of a railway charter when the directors have proceeded in good faith, and the property of the company is not brought in peril, but no such step has been taken, nor is this an action by which the company are sought to be charged for a contract beyond the fair scope of their charter.

"'The defendants seek to make this defense upon the ground that the excess of power thus assumed by the company is illegal, and renders all contracts connected with the transaction inoperative by reason of such illegality.

"'If there had been a positive prohibition of entering into a particular class of contracts, and especially if such contracts had been declared void by the charter of the company, or the general laws of the state, most unquestionably no action would lie upon the prohibited contract.

"'But when no such prohibition exists, and it is only by construction of the charter that a class of contracts are declared to be beyond the powers of the company, and when upon this point there is such reasonable ground of doubt as to induce a court to suppose the directors may have acted in good faith, and where the question is raised by one having no interest in it, except for purposes of unjust advantage, courts have never been inclined to listen to the objections.

"'In the present case, the most favorable view for the defendants, as it seems to us, is that the directors of the plaintiffs' company exceeded their powers in making the purchase, and that, therefore, the title of the boats and apparatus did not vest in the company, and consequently, that the funds which the directors appropriated for the purpose were misappropriated, and the directors may be compelled to account for them to the company, for the benefit of the stockholders. And possibly the funds so misapplied might have been pursued into the hands of the transportation company by showing the insolvency of the directors; but this must have been done at once, and any considerable acquiescence in the transaction will prevent the stockholders or the company from pursuing the funds. And in that case the title to the property will have passed from the transportation company, *prima facie*, into the directors as natural persons. In such a state of the title the directors might most undoubtedly dispose of the property, and collect the avails as a legitimate mode of restoring the funds misapplied to the company. And for this purpose they might most unquestionably take the securities upon sale of the property, payable to the company, or stipulate that the purchaser should pay the company. And this, so far from being a continuance of the perversion of the charter powers, is the surest and only obvious mode of restoring the funds to their proper channel.

"'The only wrong in the directors is in having exceeded their powers, and the transaction with the defendants, so far as it goes, will tend to restore a portion of the money to its rightful proprietor; and of this the defendants ought not to complain, as they are confessedly solicitous to bring the directors of the plaintiffs' company back to their legitimate functions. And if they should dispose of all the property purchased in this mode, in the manner this is sold to the defendants, it will go far to restore them to their appropriate place, — the treasury of the plaintiffs, — for the benefit of the company and its stockholders.'"

[1] Halford v. Cameron, etc., R. Co., 16 Q. B. 442; 20 L. J. Q. B. 160; Agges v. Nicholson, 1 H. & N. 165; 25 L. J. Ex. 348. See, also, Peruvian R. Co. v. Thames, etc., Co., L. R., 2 Ch. 617; Brice's Ultra Vires, 155.

will always be imposed where the corporation is established for the prosecution of any business which in any measure confers upon it the qualities of a trading corporation, or contemplates the contracting of debts by it in the prosecution of the business for which it was established.

But in this country at least no question is better settled upon authority than that a corporation not prohibited by law from doing so, and without any express power in its charter for that purpose, may make a negotiable promissory note, payable either at a future time or on demand, when such note is given for any of the legitimate purposes for which the company was incorporated.[1]

And it is also now well settled, that a power granted to a corporation, to engage in a certain business, carries with it the authority to act, precisely as an individual would act, in carrying on such business, and that it would possess for this purpose the usual and ordinary means of accomplishing the objects of its creation in the same manner as though it were a natural person. Thus, if incorporated for the purpose of building a bridge, it may contract a debt for labor or materials to be used thereon, or for the land on which it is to be built. And it may give as evidence of its indebtedness therefor its note, bond or mortgage. Or it may borrow money for this purpose, and execute a valid note or bond and mortgage to secure the same.[2]

But a corporation would ordinarily have no authority to assume

[1] Police Jury v. Britton, 15 Wall. 566; Moss v. Averell, 10 N. Y. 449; Richmond, etc., R. Co. v. Snead, 19 Gratt. 354; Story on Bills of Exch., § 79; Edwards on Bills, 77; Barry v. Merchants' Ex. Co., 1 Sandf. Ch. 280; Fay v. Noble, 12 Cush. 1; Munn v. Commission Co., 15 Johns. 44; Olcott v. Tioga, etc., R., 40 Barb. 179; Mechanics' Association v. White Lead Co., 35 N. Y. 505; Lucas v. Pitney, 3 Dutch. 221; Oxford Iron Co. v. Spradley, 46 Ala. 98; Bradley v. Ballard, 55 Ill. 413; Union Bank v. Jacobs, 6 Humph. 515.

[2] Barry v Merchants' Ex. Co., 1 Sandf. Ch. 280. It may also, without any special authority, make a note or draft, or accept a draft, for such a purpose, the indebtedness therefor being contracted in the pursuit of the legitimate business of the corporation. Story on Bills of Exch., § 79; Edwards on Bills, 77. See, also, Munn v. Commission Co., 15 Johns. 44; Moss v. Oakley, 2 Hill, 265; Mott v. Hicks, 1 Cow. 513; Mead v. Keeler, 24 Barb. 20; Partridge v. Badger, 25 id. 146; Olcott v. Tioga, etc., R. Co., 40 id. 179; Barker v. Mechanics' Ins. Co., 3 Wend. 94; Mechanics', etc., v. White Lead Co., 35 N. Y. 505; Ketchum v. Buffalo, 14 id. 356; Barnes v. Ontario Bank, 19 id. 152; Hardy v. Merriweather, 14 Ind. 203; Union Bank v. Jacobs, 6 Humph. 515; Lucas v. Pitney, 27 N. J. L. 221; Oxford Iron Co. v. Spradley, 46 Ala. 98; Commercial Bank, etc., v. Newport Manuf. Co., 1 B. Monr. 14; Bank of Chillicothe v. Chillicothe, 7 Ohio, 31; Hamilton v. New Castle R. Co., 9 Ind. 359; Bradley v. Bullard, 55 Ill. 413; Rockwell v. Elkhorn Bank, 13 Wis. 653.

the debt of another, and issue a note therefor, nor to make or indorse notes or bills merely for the accommodation of another.[1] Nor can an insurance company issue bonds in order to lend its credit.[2]

But the power to borrow money carries with it by implication authority to mortgage the corporate property, except its franchises, unless expressly restrained therefrom by the provisions of the constating instruments.[3] The power either to sell or mortgage the franchises of the corporation is never, it has been held, to be implied, but must be conferred by some express provision.[4] The power to purchase lands has also been held to carry with it by implication the power to mortgage the same to secure the purchase-money.[5]

[1] Stark Bank v. U. S. Pottery Co.,34 Vt. 144; Smead v. Indianapolis, etc., R. Co., 11 Ind. 104; Bank of Genesee v. Patchin Bank, 13 N. Y. 309; Central Bank v. Empire Stone Dressing Co., 26 Barb. 23; Bridgeport City Bank v. Empire Stone Dressing Co, 30 id. 421; Farmers' Bank v. Empire Stone Dressing Co., 5 Bosw. 275.

[2] Alabama L. Ins. Co. v. Smith, 4 Ala. (N. S.) 558. See, also, Attorney-Gen. v. Insurance Co., 9 Paige, 470; Safford v. Wyckoff, 4 Hill, 442; Lexington v. Butler, 14 Wall. 282; Summer v. Marcy, 3 Woodb. & M. 105.

[3] Parish v. Wheeler, 22 N. Y. 494; Nelson v. Eaton, 26 id. 410; Curtis v. Leavitt, 15 id. 9; Barry v. Merchants' Ex. Co., 1 Sandf. Ch. 380; Farmers' Loan and Trust Co. v. Hendrickson, 25 Barb. 484; Holbrook v. Basset, 5 Bosw. 147; King v. Merchants' Ex. Co., 5 N. Y. 547, Miller v. Chance, 3 Edw. 399; Pennock v. Coe, 23 How. 117; Richards v. Merrimack, etc., R. Co., 44 N. H. 127; Burr v. McDonald, 3 Gratt. 206; Susquehanna Bridge Co. v. General Ins. Co., 3 Md. 305; Bardstown, etc., R. Co. v. Metcalf, 4 Metc. (Ky.) 199; Coe v. Johnson, 18 Ind. 218.

[4] Susquehanna Canal Co. v. Bonham, 9 W. & S. 27; Steiners' Appeal, 27 Penn. St. 313, Lauman v Lebanon Valley, etc., R. Co., 30 id. 42; York & Md. R. Co. v. Winans, 17 How. 39; Pullan v. Cincinnati, etc., R. Co., 4 Biss. 35; Pierce v. Emery, 32 N. H. 484; Commonwealth v. Smith, 10 Allen, 448; Richardson v. Sibley, 11 id. 65; Hendee v. Pinkerton, 14 id. 381; Troy, etc., R. Co. v. Kerr, 17 Barb. 601; Black v. Delaware, etc., Canal Co., 22 N. J. Eq. 130; Winchester, etc., Turnp. Co. v. Vimont, 5 B. Monr. 1; Arthur v. Commercial Bank, 9 S. & M. 394; Coe v. Columbus, etc., R. Co., 10 Ohio St. 372. See, however, Hall v. Sullivan, etc., R. Co., 2 Redf. Ano. R. Cas. 621, Shepley v. A. & St. L. R. Co., 55 Me. 295; Kennebec, etc., R. Co v. Portland, etc., R. Co., 59 id. 9; Miller v. Rutland, etc., R. Co., 36 Vt. 452. If the mortgage is of the franchises as well as the property, it will be void as to the former, but good as to the latter, unless otherwise provided by law. Pullman v. Cincinnati, etc., R. Co., 4 Biss. 35. But see, under Massachusetts statutes, Richardson v. Sibley, 11 Allen, 65.

As to the power under statutes of various states to form new corporations by the purchasers on a foreclosure of mortgages against old ones, with all the powers of the old ones, but exempt from its debts and liabilities, see Wilcox's Ohio R. L. 209; N. Y. R. S. (Edmunds') 616, 912, Nixon's N. J. Dig. (4th ed.) 791; Purdon's Penn. Dig. (9th ed.) 200; R. S. Wiscon., chap. 79, § 33; Virginia Code, chap. 61, § 27; Gen. Stat. Neb. (1873), 204, Swan & Sengluis' Ohio Stat. 125. See, also, Green's Brice's Ultra Vires, 123, *et seq.*

[5] Gordon v. Preston, 1 Watts, 385; Taber v. Cincinnati, etc., R. Co., 15 Ind. 459; Jackson v. Brown, 5 Wend. 590.

And power expressly conferred to mortgage for some particular purpose

SEC. 242. **Right to mortgage.** — And, as a general rule, corporations may mortgage or assign their property to secure or pay their debts;[1] and such mortgage may not only create a lien on the existing property of the corporation, but by its terms be made to cover subsequently acquired property, which it may be necessary for it to acquire, in the prosecution of its legitimate business.[2] But frequently this right is expressly provided for by statutes.[3]

SEC. 243. **Conclusions as to ultra vires contracts.** — From the foregoing it is apparent that a contract may be *ultra vires:*

1st. When it is made by the corporation or its agents, but is wholly beyond the power of such corporation, or is not within the scope of the powers conferred upon the agent making it; or 2d.

will not, it has been held, prevent mortgaging the property to secure creditors. Allen v. Montgomery, etc., R. Co., 11 Ala. (N. S.) 437; Mobile, etc., R. Co. v. Talman, 15 id. 472. See, also, Phillips v. Winslow, 18 B. Monr. 431.

[1] Pierce v. Emery, 32 N. H. 484; Commissioners, etc., v. Troy, etc., R. Co., 1 Redf. Am. R. Cas. 575; Commonwealth v. Smith, 10 Allen, 448; Shaw v. Norfolk, etc., R. Co., 5 Gray, 162; Lenox v. Roberts, 2 Wheat. 373; Dana v. Bank U. S., 5 W. & S. 223; State v. Bank of Md., 6 G. & J. 205; Hopkins v. Gallatin Turnp. Co., 4 Humph. 403; *Ex parte* Conway, 4 Ark. 304; Haxtun v. Bishop, 3 Wend. 13; De Ruyter v. St. Peter's Church, 3 Barb. Ch. 119; S. C., 3 Comst. 238; Flint v. Clinton Co., 12 N. H. 431; Warner v. Mower, 11 Vt. 385.

It is immaterial whether the instrument is a mortgage or trust deed. Whitewater & C. Co. v. Vallette, 21 How. 414; Pullan v. Cincinnati, etc., R. Co., 4 Biss. 35; Coe v. McBrown, 22 Ind. 252; Coe v. Johnson, 18 id. 218. But see *In re* York, etc., R. Co., 50 Me. 552.

[2] Dunham v. Cincinnati, etc., R. Co., 1 Wall. 254; Galveston, etc., R. Co. v. Cowdrey, 11 id. 483; United States v. New Orleans, etc., R. Co., 12 id. 362; Railroad Co. v. Soutter, 13 id. 517; Pennock v. Coe, 23 How. 117; Williamson v. New Albany, etc., R. Co., 1 Biss. 198; Morrill v. Noyes, 56 Me. 458; Haven v. Emery, 33 N. H. 66; Seymour v. Canada, etc., R. Co., 25 Barb. 284; Stevens v. Buffalo, etc., R. Co., 31 id. 590; Buffalo, etc., R. Co. v. Lampson, 47 id. 533; Benjamin v. Elmira, etc., R. Co., 49 id. 446; Fish v. Potter, 2 Abb. Ct. App. Dec (N. Y.) 138; Stevens v. Watson, 4 id. 302; Philadelphia, etc., R. Co. v. Woelpper, 64 Penn. St. 366; State v. Northern Cent. R. Co., 18 Md. 193; Ludlow v. Hunt, 1 Disb. 552; Coe v. McBrown, 22 Ind. 252; Pierce v. Milwaukee, etc., R. Co., 24 Wis. 551. But compare Howe v. Freeman, 14 Allen, 566; Moody v. Wright, 13 Metc. 17; Coe v. Columbus, etc., R. Co., 10 Ohio St. 372; Brainerd v. Peck, 34 Vt. 496; Bath v. Miller, 53 Me. 368; Williamson v. New Jersey, etc., R. Co., 10 C. E. Green, 13; Pierce v. Emery, 32 N. H. 484; Farmers', etc., Co. v. Commercial Bank, 11 Wis. 207; Jessup v. Trustees, 14 Iowa, 572; Phillips v. Winslow, 18 B. Monr. 430.

[3] Iowa Code (1873), § 1284.

If a railroad has authority to borrow money and execute such securities as it may deem expedient, it may mortgage its road and franchises, and all of its property of every kind, including future acquisitions and earnings. Pierce v. St. Paul, etc., R. Co., 24 Wis.

When it is contrary to the positive provisions of law or against public policy. The same rules apply to a corporation that apply to individuals, and if a contract is made by it which is *prohibited* by law, it cannot enforce it, because the act is illegal and it is in *pari delicto* with the other party. Thus in a New York case[1] the plaintiff, a corporation created under a special act by which it was authorized, among other things, "to grant, bargain, sell, buy or receive all kinds of property, real, personal, or mixed, or to hold the same in trust or otherwise * * * and to advance moneys * * * upon any property, real or personal, on such terms or commissions as may be established or approved by the directors." The action was brought for the collection of two notes for $8,000 each, executed by the defendants, and payable to their own order, and indorsed by them to the plaintiff before they became due. The answer alleged, substantially, that the plaintiff was a corporation, created by special act of the New York legislature, and that it had engaged in the business of banking in violation of the laws of the state, and discounted the notes in suit in the course of that business, and that the notes were made for the purpose of raising money upon them, and that they were discounted by the plaintiff and passed to the defendant's credit upon the plaintiff's books. The general statutes of New York prohibited any corporation, not expressly incorporated for that purpose, from carrying on that business, and the constitution of the state, section 4, article 8 of the state constitution, prohibited the state legislature from passing any act granting a special charter for *banking* business. The court held that the transactions between the plaintiff and defendants constituted *banking business*, within the meaning of the statute, and that the defendant was not estopped from setting up the invalidity of the notes, as the transaction was one expressly forbidden by the laws of the state. Daniels, J., in a very able opinion, among other things, says: "If the

551. And a mortgage given to the state, by virtue of a provision of the statutes, and expressed to be on "roads, lands, and franchises," has been held on foreclosure and sale to convey all the franchises, including all right to exist as a corporation. St. Paul R. Co. v. Parcher, 14 Minn. 297; Farmers' L. & T. Co. v Commercial Bank, 15 Wis. 424; Parish v. Wheeler, 22 N. Y. 494.

[1] N. Y. Trust and Loan Co. v. Helmer, 12 Hun, 35.

position urged upon the consideration of the court (by the plaintiff) should receive its sanction, the statute, whose restraint has been violated, would be practically repealed. For it would be held that what the legislature have declared that the plaintiff should not do might safely be carried on under the sanction of the courts. That would render the statute nugatory, which would violate the duty and authority vested in the court, and rendered obligatory upon it. The notes could not be discounted, and received in plain violation of the terms of the statute of the state."[1] In a late Pennsylvania case[2] the same rule was adopted in a case where a national bank, contrary to the prohibition of the national banking act, took a mortgage of real estate, partly to secure a *future* loan, and partly to secure the payment of pre-existing notes. The court had previously held that a mortgage given to secure the payment of *future* loans was *ultra vires*,[3] and in the case first cited they held that as to the *future* loans, the mortgage was void, but was good as to those existing when the mortgage was made. The doctrine of estoppel *in pais* does not extend so far as to enable a corporation to do, in effect, what is forbidden by law, *or what it is, otherwise, wholly incapable of doing*, and, when a contract is wholly *ultra vires*, it cannot acquire validity from the circumstance that it has been treated and acted upon by the parties as a valid transaction.[4] Thus, where a lease, made by a railroad company, of its property and franchises was made, *which it had no power to make*, it was held that it had no power to ratify it, by accepting rent upon it.[5]

If a contract, which is *ultra vires*, is executed by a corporation or by an agent on its behalf, and by virtue thereof it receives the consideration and fruits of the same, and appropriates it, and all the members receive the benefit of it and acquiesce therein, the plea of *ultra vires* cannot be maintained by such corporation as a defense to an action on the contract.

[1] Firemen's Ins. Co. v. Ely, 2 Cow. 678; N. Y. Life Ins. and Trust Co. v. Beebe, 7 N. Y. 364; Seneca County Bank v. Lamb, 26 Barb. 595; Barton v. Port Jackson Plankroad Co., 17 id. 397; DeWitt v. Brisbane, 16 N. Y. 508; Richie v. Ashbury Co., 7 Irish App. 653.

[2] Woods v. People's National Bank, 83 Penn. St 57.

[3] Fowler v. Scully, 72 Penn. St. 456.

[4] *In re* Comstock, 3 Saw. (U. S. C. C.) 218.

[5] Ogdensburgh, etc., R. R. Co. v. Vermont, etc., R. R. Co., 4 Hun, 268.

If a contract is entered into by a corporation or its agents, which is *ultra vires* so long as it remains wholly unexecuted, any stockholder, or, under certain circumstances, a creditor, may, by a proper proceeding, restrain the execution of the same.

If a contract is *ultra vires*, because it is in violation of positive law or against public policy, the execution of it may be restrained upon proper proceedings in equity to that end, and instituted by a stockholder or other interested party.

If a contract is *ultra vires*, it is held by some of the authorities that this may be set up as a defense to an action on the contract; but in such a case the other party to such contract, or his assigns, may, in all cases, recover the consideration of the contract, viz.: the money advanced or the value of the property delivered thereon.

That in all cases where money or property has been received by a corporation, by virtue of a contract, and the act has received the universal assent, either express or implied, of the corporators, such contract will be binding, notwithstanding it may be *ultra vires;* and if a defense by the corporation, of *ultra vires*, can be successfully interposed to a recovery on such contract, it cannot defeat the right of the other party to recover the amount of money advanced or the value of property actually delivered by him, and received and appropriated by such corporation.

The better doctrine would seem to be that where a contract in excess or outside the corporate powers has been made by a corporation, and it has received the full consideration and appropriated the same, so that it cannot be restored and the other party placed in *statu quo*, and especially where no objection is interposed upon the part of those who might have made it, the corporation will generally be bound by the contract, the same as a natural person.

And it may also be said that, although a contract *wholly outside the purposes of its creation* is entered into, is void, yet, if a corporation contracts with reference to matters within its powers, but in doing so, exceeds them, the person with whom it deals cannot set up such excessive exercise of its corporate powers to avoid the contract.[1]

[1] Littleworth v. Davis, 50 Miss. 463; Whitney Arms Co. v. Barlow, 63 N. Y. 62; Cannon v. McNab, 48 Ala. 99.

CHAPTER X.

THE CORPORATE SEAL.

SEC. 244. Definition ; history.
SEC. 245. History of private seals.
SEC. 246. How seals came into use.
SEC. 247. Incident of a corporation.
SEC. 248. Former doctrine as to corporate seals.
SEC. 249. Origin of the law relating to corporate seals.
SEC. 251. Corporate seals ; present doctrine in reference to.
SEC. 254, 255. What is a common seal.
SEC. 256. By whom the seal should be affixed.
SEC. 257. Where an acknowledgment is required.
SEC. 258. Doctrine in relation to agents.
SEC. 260. The seal as evidence.

§ 244. **Definition; history.** — A seal has been defined as an impression upon wax, wafer, clay, or some other tenacious substance capable of being impressed.[1] Lord COKE defined it as wax with an impression; *sigillum est cera impressa, quia cera sine impressione non est sigillum.*[2] But the former practice of using wax or wafers has grown into disuse with corporations, as well as for private seals; and with the former, at least, an impression

[1] 3 Inst. 169; Warren v. Lynch, 5 Johns. 239.

[2] 3 Inst. 169. See, also, Mill Dam Foundry v. Hovey, 21 Pick. 417; 4 Kent's Com. 452. But a distinct impression of the seal upon paper is generally held a sufficient seal, without wax or wafer. Carter v. Burley, 9 N. H. 558. See, also, Mill Dam Foundry v. Hovey, 21 Pick. 417; Hendee v. Pinkerton, 14 Allen, 381. If the president of a corporation, which has adopted no corporate seal, executes a mortgage deed, and the trustees adopt a seal that he affixes opposite his name as the seal of the corporation for the time being, such seal is sufficient. South Baptist Soc. v. Clapp, 18 Barb. 36. And a corporation may adopt the seal of another, or an ink impression as a seal. Crossman v. Hilltown, etc., Co., 3 Grant (Penn.), 225. And in Vermont it has been held that a corporation might convey by the deed of their president, sealed with his private seal. Warner v. Mower, 11 Vt. 385. See, also, Lunney v. East Warren Co., 43 N. H. 343; Goddard's Case, 2 Coke, 5; Sutton's Hospital Case, 10 id. 30 *b*. But see Baxter v. State, 15 Wis. 488, where a seal composed of a piece of paper affixed to a contract made by a commissioner on behalf of the state was held to be simply the seal of the commissioner. Also, Regents of University v. Detroit, etc., Society, 12 Mich. 138, where the individual seal of an agent of a corporation to a corporate contract was held simply nugatory But in Porter v. Androscoggin, etc., R. R. Co., 37 Me. 349, a seal attached by an agent to a corporate contract is treated as the seal of the corporation.

on parchment or paper is generally considered as sufficient and equivalent to an impression on wax or wafer.

§ 245. **History of private seals.** — The use of seals may be traced to a very remote antiquity, and private signets and rings were at an early period used for sealing in the place of signatures, and as insignia of authority. Thus, we find King Darius sealing, "with his own signet and with the signet of his lords."[1] And Ahasuerus said to Esther, the queen, "write ye also for the Jews as it liketh you, in the king's name, and seal it with the king's ring; for the writing which is written in the king's name and sealed with the king's ring may no man reverse."[2]

It seems, also, that private seals were in common use among the Romans, and especially in attestation of testaments.[3]

In the times of the early English Saxons, it does not appear that seals were much in use in England. According to Blackstone, it was the practice of the illiterate to affix to instruments a cross instead of a signature; and the French Normans used only a seal. He says: "The method of the Saxons was for such as could write to subscribe their name, and whether they could write or not, to affix the sign of the cross, which custom our illiterate vulgar do, for the most part, to this day keep up, by signing their mark when unable to write their names. And, indeed, this inability to write, and therefore making a cross in its stead, is honestly avowed by Caedwalla, a Saxon king, at the end of one of his charters. In like manner, and for the same insurmountable reason, the Normans, a brave, but illiterate nation, at their first settlement of France, used the practice of sealing only without writing their names, which custom continued when learning made its way among them, though the reason for doing so ceased; and hence the charter of Edward the Confessor to Westminster Abbey, himself being brought up in Normandy, was witnessed only by his seal, and is generally thought to be the oldest sealed charter, of any authenticity, in England. At the conquest, the Norman

[1] Bible, Daniel 6, v. 17. And it is recorded that Jezebel, wife of Ahab, king of Samaria, "wrote letters and sealed them with his seal." Bible, 1 Kings, chap. 21, v. 8. See, also, Genesis, chap. 33, v. 18; Jeremiah, chap. 22, v. 10, 11.

[2] Bible, Esther, chap. 8, v. 8. See, also, Jeremiah, chap. 32.

[3] 2 Bl. Com. 305; 4 Kent's Com. 453.

lords brought over into this kingdom their own fashions, and introduced waxen seals only, instead of the English method of writing their names and signing with the sign of the cross. And in the reign of Edward I, every freeman, and even such of the more substantial villeins as were fit to be put upon juries, had their distinct particular seals. * * * This neglect of signing, and resting only upon the authenticity of seals, remained very long among us; for it was held, in all our books, that sealing alone was sufficient to authenticate a deed; and so the common form of attesting deeds, *sealed and delivered*, continues to this day."

SEC. 246. **How seals came into use.**—From what has been said it is evident that private seals came into use from the inability of parties to write; and that the practice is continued both with natural persons as well as corporations, from a custom that would perhaps be "more honored in the breach than the observance."

SEC. 247. **Incident of a corporation.** — A right to have and use a common seal is said to be incident to all corporations.[2] The use of the common or corporate seal by corporate bodies is supposed to have originated like private seals, from the general inability of persons to write, although Sir Wm. Blackstone attributes the use of a common seal to the fact that "a corporation being an invisible body cannot manifest its intentions by any personal act or oral discourse, it, therefore, acts and speaks only by its common seal."[3]

This is not, however, literally correct, as the will of the corporate body can only be expressed by a vote or voice of the majority of its members;[4] and the common seal affixed to a corporate

[1] 2 Bl. Com. 305.

[2] Bac. Abr., title Corp. 3.

[3] 1 Bl. Com. 475.

[4] The ancient doctrine has been departed from, in the modern decisions. Chesapeake, etc., Co. v. Knapp, 9 Pet. 541; Fleckner v. Bank of United States, 8 Wheat. 338, where it was held that the acts of a corporation may be evidenced by a written vote as well as by the corporate seal. See Maine Stage Co. v. Langley, 14 Me. 444; Badger v. Bank of Cumberland, 26 id. 428; Savings Bank v. Davis, 8 Conn. 191; Poultney v. Wells, 1 Aik. 180; Milledge v. Boston Iron Co., 5 Cush. 158; Danforth v. Schoharie Turnpike Co., 12 Johns. 227; Dunn v. Rector of St. Andrew's, 14 id. 118; Mott v. Hicks, 1 Cow. 513; Brady v. Mayor, etc., of Brooklyn, 1 Barb. 584; St. Mary's Church v. Cagger, 6 id. 576; Peterson v. Mayor, etc., of New York, 17 N. Y. 449; North Whitehall v. South Whitehall, 3 S. & R. 117; Chestnut Hill Turnpike Company v. Rutter,

instrument is only authenticated evidence of such corporate will. If authority is by the corporators or by the fundamental law of the corporation conferred upon a certain number of its members, as a board of directors, they may undoubtedly represent the members and are supposed in their vote or acts to represent the body of the corporators. And the annexation of a common or corporate seal to any corporate conveyance or contract is evidence only that the majority of the corporators have assented to such conveyance or contract; and when it is used it is in attestation of this will, although Blackstone observes in reference to the corporate seal, that "it is the fixing of the seal, and that only, which unites the several assents of the individuals who compose the community and makes one joint assent of the whole." [1] But it is evident that this idea of the corporate seal is imaginary and rests upon no real foundation. It is a mere sign of the corporate will — a mere evidence of corporate action; and in this respect possesses no higher qualities or virtue than the private seal of an individual. The practice of using a corporate seal properly originated, as we have suggested, in an age of general ignorance of the art of writing; and like the private seal it has continued in use, although the original reason for its use has ceased to exist.

Sec. 248. **Former doctrine as to corporate seals.** — It was formerly held that the corporate assent, as we have stated, could only be expressed by the corporate seal. But there has been a great relaxation of this rule, if it is not entirely discarded.[2] And the gen-

4 id. 16; Hamilton v. Lycoming Mutual Insurance Company, 5 Penn. St. 344; Union Bank of Maryland v. Ridgely, 1 H. & G. 329, 413; Elysville Manufacturing Co. v. Okisko Co., 1 Md. Ch. Dec. 392; Petrie v. Wright, 6 S. & M. 647; Baptist Church v. Mulford, 3 Halst. 182; Commercial Bank v. Newport Manufacturing Co., 1 B. Monr. 13; Garvey v. Colcoke, 1 Nott & McC. 231; Union Bank v. Jacobs, 6 Humph. 515; Hamilton v. Newcastle R. R. Co., 9 Ind. 359; Smith v. Congregational Meeting House, 8 Pick. 178; Abbott v. Hermon, 7 Me. 118; Watson v. Bennett, 12 Barb. 196; American Ins. Co. v. Oakley, 9 Paige, 496; Stone v. Berkshire Congregational Society, 14 Vt. 86; Gasset v. Andover, 21 id. 342; Sheldon v. Fairfax, id. 102; State v. Morris & Essex R. R. Co., 23 N. J. L. 360; Palm v. Medina Ins. Co., 20 Ohio, 529; Muir v. Louisville & Portland Canal Co., 8 Dana, 161.

[1] 1 Bl. Com. 475.

[2] Henderson v. Australian Royal Mail, etc., Co., 5 E. & B. 409; Same v. Marzetti, 11 Exch. 228; Fishmongers' Co. v. Robertson, 5 M. & G. 131; Clark v. Cuckfield, 11 Eng. L. & E. 443; Copper Mines v. Fox, 16 Q. B. 229; Diggle v. London, etc., R. Co., 5 Exch. 442; Mayor of Ludow v. Charlton, 6 M. & W. 815; Arnold v. Mayor of Poole, 4 M. & G. 860; Paine v. Strand Union, 8 Q. B. 226; Church v.

eral doctrine now recognized is, that the corporation may make contracts, by the will of the majority of the corporators, or, which is the same thing, by the action and will of the majority of those authorized to act for the body; the corporate seal being only essential, if at all, in case of the conveyance of lands or the more important contracts. It has been truly said that "as the art of writing became more common in England, the practice of concurring with the tenor of every written instrument by seal, an account of its inconvenience, grew into disuse with individuals, and was confined to those writings of a peculiarly high and solemn kind, which were employed in the transfer of lands and acts of the like nature. The practice, however, still continued with the old corporations of the common law, perhaps from the natural inflexibility of bodies of men, where many wills must concur to a change, and because owing to the comparative paucity of their contracts and the number of their agents, the inconvenience of this mode of contracting would be less sensibly felt by them than by individuals. It is probable that in this way grew up the old rule, so long and so well established in England, that except in the administration of its internal affairs, as the election of officers and the like, corporations aggregate could signify their assent only by their common seal, and of course could act and contract only by deed." [1]

Imperial, etc., R. Co., 6 A. & E. 846; Smart v. West Ham. Union, 10 Exch. 867; Reuter v. Elec. Tel. Co., 6 E. & B. 341; 37 E. L. & E. 189; Low v. London, etc., R. Co., 18 Q. B. 632. The former doctrine seems to be entirely discarded in this country. Bank of Columbia v. Patterson, 7 Cranch, 299; Chestnut Hill Turnp. Co. v. Rutter, 4 S. & R. 16; School District v. Wood, 13 Mass. 199; Bank of U. S. v. Dandridge, 12 Wheat. 64; Bank of Columbia v. Patterson, 7 Cranch, 299; Mott v. Hicks, 1 Cow. 513; Union B'k v. Ridgely, 1 Harr. & G. 324; The Banks v. Poitiaux, 3 Rand. (Va.) 136; Fleckner v. Bank of U. S., 8 Wheat. 338; Danforth v. Schoharie Turnp. Co., 12 Johns. 227.

If the common seal is affixed to an instrument, and the signatures of the proper officers, the courts will presume that they did not exceed their authority. Morris v. Keil, 20 Minn. 531.

[1] An interesting article on the subject of seals may be found in the American Law Review, vol. 1, p. 638. The author among other things refers to the antiquity of seals and observes:

"It seems to us, moreover, that a philological and historical examination of the question leads to the gratifying conclusion, that the common law, in this as in other matters, did not 'stick in the bark' or wax, but recognized a substantial and intelligible principle and distinction, viz., that the distinctive element of sealing is the solemn and formal authentication of an instrument by the impression of some permanent symbol or token besides the signature, and has never selected or prescribed any single material on which that symbol must be impressed.

Sec. 249. **Origin of the law relating to corporate seals.** — We have referred to the origin of the use of private as well as corporate seals, and the doctrine of the common law that the corporate body

"It may not be uninteresting, without attempting to pursue the subject through all history, to recur to some of the most ancient illustrations of a similar custom. Lord Coke and the writers of his age would hardly have rejected the authority of Job (xxxviii, 14), where we find the words, 'It is turned as clay to the seal.'

"Impressions of seals upon clay have been discovered, which are thought to be of great antiquity. Smith's Dict. of the Bible, verb. Clay and Seal. Mr. Layard, in his 'Discoveries in the Ruins of Nineveh and Babylon' (Part 1), refers to such instances. 'Other corroborative evidence,' he says (p. 153), 'as to the identity of the king who built the palace of Kouyunjik with Sennacherib is scarcely less remarkable. In a chamber or passage in the south-west corner of this edifice were found a large number of pieces of fine clay, bearing the impressions of seals (resembling the γῆ σημαντρίς [the sealing earth] of the Greeks), which there is no doubt had been affixed, like modern official seals of wax to documents written on leather, papyrus or parchment. Such documents, with seals in clay still attached, have been discovered in Egypt, and specimens are preserved in the British Museum. The writings themselves had been consumed by the fire which destroyed the building, or had perished from decay. In the stamped clay, however, may still be seen the holes for the string, or strips of skin, by which the seal was fastened; in some instances, the ashes of the string itself remain (M. Botta also found at Khorsabad the ashes of string in lumps of clay impressed with a seal, without being aware of their origin), with the marks of the fingers and thumb.' And again (p. 156 n.): 'Not to instance the clay seals found attached to the rolls of papyrus, containing letters written in the time of the Ptolemies and Romans, there are in the British Museum seals bearing the name of Shashank or Shishak (No. 5585), of Amasis II, of the twenty-sixth dynasty (No. 5584), and of Nafuarut or Nepherophis, of the twenty-ninth dynasty (No. 5585). Such seals were, therefore, affixed by the Egyptians to public documents; and it was in accordance with this principle, common to the two monarchies, that the seal of the Egyptian king has been found in Assyria.' So (p. 159), 'It would seem, that, a peace having been concluded between the Egyptians and one of the Assyrian monarchs, probably Sennacherib, the royal signets of the two kings, thus found together, were attached to the treaty, which was deposited amongst the archives of the kingdom. Whilst the document itself, written upon parchment or papyrus, has completely perished, this singular proof of the alliance, if not actual meeting, of the two monarchs, is still preserved amidst the remains of the state papers of the Assyrian Empire.' The reader who has seen an English patent, with its pendent seal, or the cumbrous attachments of treaties, will be struck with this evidence of the antiquity of the custom thus preserved; and the citations which follow furnish evidence of its connection, by a chain of legal and political usage, with the present time. *Sigillum* is the original word now translated into seal, and the word used by ancient writers, among them Lord Coke, whose authority is often cited and relied upon in reference to this point. *Sigillum*, *signum* and *signaculum* mean a mark, figure, or impression, on whatever material or substance. Leverett's Latin Lexicon defines *sigillum*, the diminutive of *signum*, as 'a little image or figure,' while *signum* is said to mean 'a mark or sign,' and as a derivative or secondary meaning, 'the impression of a seal, seal.' And, in the large Lexicon Totius Latinitatis of Facciolatus and Forcellinus, the following definition is given: 'De imagine, quæ annulo signatorio in cera *aliave materia* imprimitur, obsignandis litteris, amphoris, scriniis,' etc. It does not seem necessary to inquire when traces of a custom of such early origin can first be found in the Middle Ages. The pendent seals already

could only act or express its action or assent by its common seal. The early English doctrine on this subject was peculiar to the common law, and not borrowed from the civil law, from whence came most of the principles and doctrines relating to corporations. For, according to Ayliffe, corporations might contract directly by vote without the intervention of officers or agents, and of course without the use of a seal.[1]

In relation to seals, it may with propriety be observed, that their use having originated in the ignorance of people of the art of writing, and this reason for the use of them having now been generally removed by the general intelligence and ability of people to write, there would seem to be no good reason for a continuance of it, either as a private or corporate practice. And, accordingly, we find it rapidly going into disuse; and much of the former technical doctrines relating to seals and sealed instruments practically disregarded, or at least greatly changed. And although Blackstone affirmed that "a corporation being an invisible body cannot manifest its intentions by any personal act or oral discourse, it, therefore, acts and speaks only by its common seal. For although the particular members may express their private consents to any act by words or signing their names, yet this does not bind the corporation; it is the fixing of the seal, and that only, which unites the assents of the individuals who compose the community, and makes one joint assent of the whole;"[2] it is evident

mentioned were then used; and in the Glossary of Du Cange (Didot's ed. 1846, with additions by different hands, here referred to without distinction), we find it stated in reference to these: 'Pensilium sigillorum, non nuperum sed perantiquum usum fuisse, licet colligere et iis quæ de *Bullis* observavimus, ubi *plumbeas et aureas* Bullas primitus, filo aut serico tabulis appensas, docuimus.' 'Sed.' it is added, 'quando *cerea* istiusmodi sigilla perinde literis appendi cœperint non plane constat.' 'Dubius hæret ipsemet. Cangius.' In one place he speaks of the twelfth century: in another he says they were used in France about the ninth or tenth; while it is stated that the use of seals of any kind was entirely unknown in England in the beginning of the eleventh century. (verb. *Sigillum*, p. 241.) On the continent, gold, silver, and lead were used. Sometimes lead was used '*loco ceræ*,' or with wax, and wax with gold, 'ut si aureum subriperetur remaneret alterum.'"

(Du Cange, Cowel, Tomlin's Jacob's verb. Bull and Seal.) } verb. *Bulla, Sigillum.*

[1] Ayliffe's Civ. Law, B. 2, tit. 35, p. 198. See, also, 2 Bl. Com. 305; 2 Wood's Civ. L. 136; Browne's Civ. Law, B. 1, 104.

[2] 1 Bl. Com. 475.

that the corporate seal did not unite, in fact, the wills of the many members of a corporation aggregate, but that that will at all times could only be expressed by the vote cast by its members, or a majority of them; and the common seal only furnished evidence of that will, as thus expressed.

The seal did not make "one joint assent of the whole," but was high, if not conclusive, evidence, of the corporate assent. And it was never true that this assent could only be shown by the common seal. The records of corporate action were always evidence to show that by the votes of its members by-laws had been adopted, certain officers elected, and agents appointed for general or special purposes. And the agents thus appointed can bind the corporation to any contract within the scope of the authority thus conferred upon them by a mere corporate vote, without the use of the common seal, and without any authority conferred by a common seal. But where, by law, a valid contract can only be executed by a seal of the parties, the seal of the corporation may be required to constitute a valid contract.[1]

Sec. 250. Instead of affirming that "a corporation being an invisible body cannot manifest its intentions by any personal act or oral discourse," and that "it therefore acts and speaks only by its common seal," it seems to me it would be more correct to say, that as it is a mere ideal body, composed of members, a majority of whose wills constitute the will of the corporate person, this corporate will can only be evidenced by a fair expression of the wills of this majority, of which the records of the corporation in this respect are the best evidence, and that the signatures of officers or agents properly made, and the annexation of the corporate seal, is but evidence and authentication of the corporate will and action, expressed in some manner at a meeting of its members.[2] The truth is, that though in its decay, the Roman

[1] The civil law, in the shape in which we have it, was instituted amongst a people more literate than that which gave origin to the common law. From the nature of the corporations and communities existing under it, the same incapability, literally speaking, of personal act or of oral discourse, was attached to them as to corporations aggregate at the common law; yet, we find that not only did they appoint officers, capable of contracting without seal, but themselves contracted directly by vote, without the intervention of any officers whatever. Ayliffe's Civ. L., B. 2, tit. 35, p. 118.

[2] See 1 Redf. on Rail., § 143.

empire was won back to ignorance by barbarous invaders;[1] in its better days, neither individuals nor corporations existing within it were in general compelled to use seals by way of signature from an ignorance of the art of writing. A common seal was not, therefore, necessary to a corporation at the civil law to enable it to make a written contract, and accordingly Wood tells us of such a corporation, that 'it may have a common chest, and sometimes a common seal.'"[2]

SEC. 251. **Corporate seal; present doctrine in reference to.**— It was essential at common law, as we have seen, that the seal not only of private persons, but of corporations, should be impressed upon wax, wafer or other impressible and tenacious substance; but this doctrine has been in modern times much relaxed. For instance, it has been recently held that it was sufficient to impress either private or corporate seals directly upon the paper or parchment upon which the instrument is written, and this mode of impressing seals has in some of the states been authorized by statutory provisions.[3] And, on general principles, any mode of impression which would answer for private seals, in the absence of other statutory regulations, would be good in case of corporate seals.

The early doctrine required all important contracts and the appointment of agents of the corporation to be made in writing under the corporate seal.[4] But the tendency of the decisions of our courts is to allow the same latitude in this respect as with respect to the seals of private persons, and in all the more common

[1] Wood's Civ. L., chap. 2, p. 136; Browne's Civ. L. b. 1, 104.

[2] Wood's Civ. L., chap. 2, p. 136; Browne's Civ. L., B. 1, 104.

[3] Corrigan v. Trenton, etc., Co., 5 Eng. Eq 52; 4 Kent's Com. 445; 1 Dill. on Mun. Corp., § 130; Woodman v. York, etc., R. Co., 50 Me. 549; Haven v. Grand Junction R. Co., 12 Allen, 337. See, also, argument in this case, 1 Am. L. Rev. 638; Hendee v. Pinkerton, 14 Allen, 381; Royal Bank of Liverpool v. Grand Junction R., 100 Mass. 444; In re Sandilands, L. R., 6 C. P. 411.

[4] Aggregate corporations, consisting of a constant succession of various persons, can regularly do no act without writing; therefore, gifts by them must be by deed. 2 Bac. Abr. (Am. ed.) tit. Corp. E. 3, p. 452. So it was formerly held that such a corporation could not, without a deed, command a bailiff to enter into lands of a lessee for years, for a condition broken. 1 Roll. Abr. 514-699; Cro. Eliz. 815; Cro. Jac. 411. Neither could they without a deed properly sealed with the corporate seal appoint one to seize goods as forfeited to the use of the corporation. 2 Bac. Abr. (Am. ed.) 453. See, also, 2 Bac. Abr. (Am. ed.), tit. Corp. E. 3, p. 453.

transactions of the corporation it may act and contract by the will of the body, as expressed by a vote of the majority or by a majority of those that represent the body, as by the directors, and that the corporate will as thus expressed may be executed by the proper agents of the corporation, even without an appointment under the common seal. And it is now well settled, that acts of a corporation evidenced by a vote are as binding upon it and are as complete authority to its agents in the execution of the will of the corporation, thus expressed, as if such will and authority was authenticated by the corporate seal; that it may be as well bound by the acts of its agents thus authorized as by the corporate seal, and that promises may as well be implied from its acts and the lawful acts of its agents as if the principal was a natural person.[1] And the corporate will is now seldom expressed or authenticated by the corporate seal, except in those cases where, under similar circumstances, it would be necessary to execute the instrument with a seal if a natural person was the party executing it.[2]

[1] Board of Education v. Greenebaum, 39 Ill. 609; Ross v. Madison, 1 Ind. 281; Merrick v. Burlington, 11 Iowa, 74; Petrie v. Wright, 14 Miss. 647; Buckley v. Briggs, 30 Mo. 452.

[2] Kyd on Corp. 263; Harper v. Charlesworth, 4 B. & C. 575; Union Bank v. Ridgely, 1 H. & G. 419; Bank of U. S. v. Dandridge, 12 Wheat. 105; Wood v. Tate, 5 B. & P. 247; Dillon on Mun. Corp., § 132.

Mr. Kent observes: "It was the ancient and technical rule of the common law that a corporation could not manifest its intentions by any personal act or discourse, and that it spoke and acted only by its common seal. Afterward the rule was relaxed, and, for the sake of convenience, corporations were permitted to act, in ordinary matters, without deed, as to retain a cook, or a servant, or butler. * * * In Rex v. Bibb, P. Wms. 419, the old rule was further relaxed, and it seems to have been established, that though a corporation could not contract directly except under their corporate seal, yet they might by mere vote or corporate act, not under their corporate seal, appoint an agent whose acts and contracts, within the limits of his authority, would be binding on the corporation. In a case as late as 1783, it was held, that the agreement of the major part of a corporation, entered in the corporation books, though not under the corporate seal, should be decreed in equity. Maxwell v. Dulwich College, 1 Fonb. Tr. 296 note. But see, in Carter v. Dean of Ely, 7 Simons, 211, where it was held that the agreement of the major part of a corporation, entered in the corporation books, though not under the corporate seal, would be decreed in equity. In Yarborough v. The Bank of England, 16 East, 6, it was admitted that the corporation might be bound by the acts of their servants, though not authorized under their seal, if done within the scope of their employment. At last, after a full review of all the authorities, the old technical rule was condemned in this country, as impolitic and essentially discarded, for it was decided by the supreme court of the United States, in the case of The Bank of Columbia v. Patterson, 7 Cranch, 299, that whenever a corporation aggregate was acting within the range of the legitimate purposes of its institution, all parol contracts made by its authorized agents were express and binding promises of the

SEC. 252. **Rule as to use of seal.**— Wherever the law requires a natural person to attach a seal to the instrument executed by him, in like cases only, would it be necessary for a corporation to execute a like instrument by a corporate seal. If in the former case the instrument must be by deed, that is, executed or authenticated by a seal, so, in the latter case, should it also be executed or authenticated by the common seal of the corporation.

SEC. 253. **Seal makes instrument a specialty, when.**— The execution of the corporate deed must, of course, be by an agent. The corporation being but an incorporeal or ideal person, it could not be supposed capable, as such, of performing a physical act, but must in such matters act by its duly constituted agents in the corporate name, and, when so required, must authenticate the same by the common seal, the usual form of authentication being: "In testimony whereof the common seal of the corporation is hereby affixed," the name of the corporation being signed by the agent, with his name as such agent, and the common seal of the corporation attached or affixed thereto.

The common seal of a corporation affixed to an instrument purporting to be executed by the proper agent, makes it a specialty where such an instrument is required, and has the same effect as if executed in a like case by a natural person.[1]

In the case of *The City of Davenport* v. *The Peoria Marine*

corporation, and all duties imposed upon them by law, and all benefits conferred at their request, raised implied promises, for the enforcement of which an action lay." 2 Kent's Com. 288.

Mr. Kent further observes: "The adjudged cases in England and in Massachusetts were considered as fully supporting this reasonable doctrine, and that the technical rule that a corporation could not make a promise except under seal would be productive of great mischief. As soon as it was established that the regularly appointed agent of the corporation could contract in their name without seal, it was impossible to support the other position." 2 Kent's Com. 288 *et seq.*

Mr. Redfield says: "No particular form of contract is requisite to bind the company, unless where the charter expressly requires it. And although there seems to be a failing effort in the English courts to maintain the necessity of the contracts of corporations being under seal, it is certain that the important business transactions of daily occurrence, in both that country and here, where no such formality is resorted to by business corporations, in matters of contract, and where to look for any such solemnity would be little less than absurd, almost of necessity drive the courts of England to disregard the old rule of requiring the contracts of corporations to be made under the corporate seal." 1 Redf. on Railw. 409.

[1] Clark v. Farmers', etc., Co., 15 Wend. 256; Steele v. Oswego, id. 265; Benoist v. Carondelet, 8 Mo. 250; Sturtevants v. Alton, 3 McLean, 350.

and Fire Insurance Company, the supreme court of Iowa, by Cole, J., say: "The English rule that a corporation cannot expressly bind itself except by deed, unless the act establishing it authorizing it to contract in another mode has been broken in upon, and indeed entirely overturned, as a general proposition, throughout the United States; and it is here well settled that the acts of a corporation, evidenced by vote, written or unwritten, are as completely binding upon it, and are as complete authority to its agents as the most solemn acts done under the corporate seal; that it may as well be bound by express promises through its authorized agents as by deed; and that promises may as well be implied from the acts of its agents as if it had been an individual."[1]

And in England it has also been recently held that contracts executed in pursuance of an oral agreement by a party with a corporation, to do work or furnish supplies that are required in the accomplishment of the purposes and objects of the corporation, the party thus performing will be entitled to recover therefor, either upon the common counts or the special contract. Wightman, J., observed: "I am disposed to think that wherever the purposes for which a corporation is created render it necessary that the work should be done, or goods supplied to carry such purposes into effect, as in case of the guardians of a poor-law union, and orders are given at a board regularly constituted, and having general authority to make contracts for works or goods necessary for the purposes for which the corporation was created, and the work is done, or goods supplied and accepted by the corporation, and the whole consideration for payment executed, the corporation cannot keep the goods or the benefit, and refuse to pay, on the

[1] 17 Iowa, 276. See, also, Bank of Columbia v. Patterson's Administrators, 7 Cranch, 305; Fleckner v. The United States Bank, 8 Wheat. 357; The Bank of the United States v. Dandridge, 12 id. 68; Dunn v. The Rector of St. Andrew's Church, 14 Johns. 118; The American Insurance Co. v. Oakley, 9 Paige, 496; Overseers, etc., v. Overseer, 3 S. & R. 117; Hamilton v. Lycoming Ins. Co., 5 Barr. 344; Legrand v. Hampden Sidney College, 5 Munf. 324; Union Bank v. Ridgely, 1 H. & G. 413; Hayden v. Middlesex Turnpike Corp., 10 Mass. 401; White v. The Westport Cotton Man. Co., 1 Pick. 215; Bulkley v. The Derby Fishing Co., 2 Conn. 256; Garvey v. Colcock, 1 N. & McC. 221; Petrie v. Wright, 6 S. & M. 647; Baptist Church v. Mulford, 8 N. J. L. 182; Abbott v. Hermon, 7 Me. 118; Walker v. Bank of Kentucky, 3 J. J. Marsh. 201; Lee v. The Trustees, etc., 7 Dana, 28; Eastman v. Coos Bank, 1 N. H. 26; Sheldon v. Fairfax, 21 Vt. 102; Palmer v. Medina Ins. Co., 20 Ohio, 537.

ground that though the members of the corporation who ordered the goods or the work were competent to make a contract and bind the rest, the formality of a deed or of affixing the seal was wanting, and then say: no action lies; we are not competent to make a parol contract, and we avail ourselves of our disability."[1] But in England it has also been held that where work was done or materials furnished by virtue of a contract not under seal, which were not necessary nor incidental to the purposes for which the corporation was created, no recovery thereon could be had.[2]

§ 254. **What is a common seal.** — The common seal of a corporation is the instrument or stamp adopted by it for the purpose of stamping or making an impression upon wax or wafer, or other impressible substance annexed to instruments made by it, or upon the paper or parchment upon which such instruments are written. The impression thus made is also, in one sense, the corporate seal.

Like a private seal, it was formerly required that the impression be made upon wax, wafer, or other impressible and tenacious substance attached to the paper or parchment upon which the instrument was written.[3] But according to the current of modern authorities, even in the absence of statutory regulations, the impression of the seal, when required at all, may be made directly upon the paper or parchment.[4]

§ 255. **Form of, not material.** — It is evident that the seal, either private or corporate, has ceased to serve its original purpose as a substitute for a signature, and as an authentication of a corporate or other instrument it possesses but little intrinsic value. The form

[1] Clark v. Cuckfield Union, 21 L. J. Q. B. 349. See, also, Sanders v. Guardians of St. Neat's Union, 8 Q. B. 810, which was an oral order for iron; De Grave v. Mayor, etc., 4 C. P. 111, which was for weights and measures sent at the request of the defendant, and accepted by them; Beverly v. Lincoln, etc., Co., 6 A. & E. 829, which was an action for gas meters supplied to the defendants; Nicholson v. Bradford Union, L. R., 1 Q. B. 620, which was an action for coals supplied by a contract not under seal.

[2] See Paine v. Guardians', etc., Union, 8 Q. B. 326; 15 L. J. M. C. 89; Lamprell v. Billericay Union, 3 Ex. 283; 18 L. J. Ex. 282; Homersham v. Wolverhampton, etc., Co., 6 Ex. 137; 20 L. J. Ex. 193.

[3] Bank of Rochester v. Gray, 2 Hill, 228; Farmers' Bank v. Haight, 3 id. 493.

[4] Hendee v. Pinkerton, 14 Allen, 381; Corrigan v. Trenton, etc., Co., 6 N. J. L. 52; Reg. v. St. Paul, etc., 7 Q. B. 231; Davidson v. Cooper, 11 M. & W. 778; S. C., 13 id. 342.

of the instrument with which the impression is made, or the engraving or device on the seal, if any, would seem to be immaterial. In fact, where a seal is required, any thing which may be accepted or adopted by a corporation with which to impress wax, wafer, or even the paper itself, would seem to be sufficient.

Where a seal or some impression is required on wax, wafer, or paper, it would appear quite immaterial as to the instrument used to make the impression, provided it is something adopted by the corporation or by the authorized agent, and is placed upon the instrument by the proper agent, or even by his direction or authority. Thus, it has been held that the corporate seal might be stamped or printed by the printer of the blank instruments of a corporation if done by the direction of the proper officers, and that the seal thus made and placed upon the paper on which an instrument was executed would be valid as a corporate seal.[1]

On this question the Supreme Court of Massachusetts say: "The corporate seal having been affixed by the printer by direction of the officers of the corporation, and they having adopted his act and subsequently signed and issued the bond, the sealing was duly made, and the instruments became obligatory upon the corporation. This is no more nor less than constantly takes place when a scrivener prepares and affixes a seal to a deed, which the grantor thereupon signs and delivers. The practice is of unquestionable validity, and the authorities for it are abundant. If a stranger seal an instrument by the allowance or commandment, precedent, or agreement subsequent, of the person who is to seal it, that is sufficient."[2]

[1] Royal Bank, etc., v. Gr. Junction, etc., R. Co., 100 Mass. 444; Woodman v. York, etc., R. Co., 50 Me. 549; Hendee v. Pinkerton, 14 Allen, 381.

It may be done with some permanent instrument prepared for that purpose, or it may be done by some temporary one, authorized or adopted by the corporation. Bank of Middlebury v. R. & W. R. Co., 30 Vt. 159; Tenny v. Lumber Co., 43 N. H. 343; Mill Dam Foundry v. Hovey, 21 Pick. 417; Porter v. Railroad, 37 Me. 349.

[2] Royal Bank, etc., v. Grand Junction, etc., R. Co., 100 Mass. 444; Bates v. Boston, etc., R. Co., 10 Allen, 251.

It is not necessary for an agent in executing a deed in behalf of a corporation, to use the corporate seal. Porter v Androscoggin, etc., R. Co., 37 Me 349. See, also, Clark v. Pratt, 47 id. 55; Reynolds v. Glasgow Academy, 6 Dana, 37. It has been observed: "At common law, the corporate seal cannot be impressed directly upon the paper, but must be upon wax or wafer, or some other tenacious substance, or the instrument to which it is attached will not operate as a sealed instrument.

In a recent case in New Jersey, however, a distinctive impression of the

But the usual instrument with which the impression is made is one prepared expressly for the purpose, and on which is engraved the name of the corporation with the words "corporate seal," or "seal." And it has been held that an instrument executed by the proper agent or officer of the corporation and sealed, though by the impression of the common desk seal of a merchant, it will be presumed to be the seal of the corporation until rebutted by competent evidence.[1]

§ 256. **By whom the seal should be affixed.** — As all physical acts of corporations must be done by agents duly appointed for that purpose, it follows that the corporate seal must be affixed by an agent duly authorized for that purpose. Such agent may be designated in the law creating or constituting the corporation; but it is usually annexed by an officer, duly authorized by the by-laws, or by the president, by virtue of the implied authority conferred upon him as such officer.

But it is evident that the majority of the members of a corporation might direct and authorize any person to not only execute an instrument for the corporation, but to affix the corporate seal; and this authority could be conferred by them or by the fundamental law, as by the statute of its creation, or by the articles of association constituting the association, upon a limited number of the corporators as a board of directors, who, in that

paper without the intervention of wax or wafer was held to be a lawful corporate seal. In the southern and western parts of the United States, from New Jersey inclusive, a flourish of the pen at the end of a name or a circle of ink or scroll has been allowed to be a valid substitute for a seal; and in the states of Delaware, Illinois, Missouri and Tennessee this substitute has, we believe, been introduced by acts of their legislatures. Though we know of no decision upon the subject, yet we see no reason, unless the act of incorporation expressly provides what the common seal shall be, why the substitute allowed for the private seals of an individual should not be allowed for the seal of a corporation."

For an interesting article on this subject, see 1 Am. Law Rev. 649.

[1] Moises v. Thornton, 8 T. R. 303; Peake's Law of Ev. 48; Jackson v. Pratt, 10 Johns. 381; Mann v. Pentz, 2 Sandf. Ch. 271; Foster v. Shaw, 7 S. & R. 156; Den v. Vreelandt, 17 N. J. L. 252; Darnell v. Dickens, 4 Yerg. 7; City Council, etc., v. Moorehead, 2 Rich. 450. See, also, Bank of Middlebury v. Rutland R. Co., 30 Vt. 159. To an indenture between a corporation and an individual the parties "set their hands," but there was no reference to a seal. To the instrument, however, were attached seals consisting of small bits of paper fastened with wafers without any impression. Held to be sufficient. Mill Dam Foundry v. Hovey, 21 Pick. 417.

case, could duly authorize and appoint some officer or agent to execute a contract on behalf of the corporation, and affix the common seal thereto.[1]

The seal of a corporation affixed to an instrument, like the seal of a natural person, makes it a specialty.[2]

Sec. 257. **Where an acknowledgment is required.** — It is generally necessary, not only to have certain instruments, especially deeds and other writings relating to lands, executed by a corporation through its duly constituted agent, and the corporate seal annexed or impressed upon the parchment or paper upon which the instrument or conveyance is written, but for the purposes of recording to have the same acknowledged before a proper officer. Where this is required, the proper officer or agent executing the instrument may, generally, make the acknowledgment required by the recording laws.[3]

Sec. 258. **Doctrine in relation to agents.** — We have considered the subject of corporate agents, generally; but in this connection we will observe that the recognized principle that the agent of a natural person, in order to bind his principal by deed, must have an authority so to do by deed, that is, by an instrument duly executed under seal, has no application to the agents of corporations.[4]

[1] Jackson v. Campbell, 5 Wend. 572; Damon v. Granby, 2 Pick. 345; Derby Canal Co. v. Wilmot, 9 East, 360; Bank of the U. S. v. Dandridge, 12 Wheat. 68, 113; Burks & D. Turn. Road v. Myers, 6 S. & R. 12; Clarke v. The Imperial Gas Co., 4 B. & A. 315; 1 N. & M. 206; Leggett v. New Jersey Banking Co., 1 N. J. Eq. 541; Clark v. Woolen Manuf. Co., 15 Wend. 256. See, also, Bank of Ireland v. Evans, 5 H. of L. Cas. 389; 32 Eng. L. & Eq. 23.

[2] Clark v. The Woolen Manuf. Co., 15 Wend. 256; Benoist v. Carondelet, 8 Mo. 250; City of Davenport v. The Peoria, etc., Ins. Co., 17 Iowa, 276; Ring v. Johnson Co., 6 id. 265; Dill. on Mun. Corp., § 132.

A vote authorizing a committee to sell lands empowers them to make the necessary deeds in the name of the corporation, and if the committee consists of several, who all sign their names, only one seal is necessary. Decker v. Freeman, 3 Me. 338. See, also, Burrill v. Nahant Bank, 2 Metc. 167.

The corporate seal affixed to an instrument does not render it a corporate act, unless it is affixed by a duly authorized officer or other agent. Jackson v. Campbell, 5 Wend. 572.

But the seal is *prima facie* evidence that it was so affixed. Lovett v. Steam Saw Mill Association, 6 Paige's Ch. 54.

[3] Gordon v. Preston, 1 Watts (Penn.), 385; Lovett v. The Steam Saw Mill Association, 6 Paige's Ch. 60.

[4] Hopkins v. Gallatin Turnp. Co., 4 Humph. 403; Beckwith v. Windsor Manuf. Co., 14 Conn. 594; Howe v. Keeler, 27 Conn. 538; Burr v. McDonald, 3 Gratt. 215; Redf. on Rail., §§ 113, 143.

"The technical doctrine that a corporation could not contract, except under its seal, or, in other words, could not make a promise, if it ever had been fully settled, must have been productive of great mischiefs. Indeed, as soon as the doctrine was established that its regularly appointed agents could not contract in their name without seal, it was impossible to support it; for otherwise the party who trusted such contract would be without remedy against the corporation. Accordingly, it would seem to be a sound rule of law, that whenever the corporation is acting within the scope of the legitimate purposes of its institution, all parol contracts made by its authorized agents are express promises of the corporation; and all duties imposed on them by law, and all benefits conferred at their request, raise implied promises for the enforcement of which an action will lie."[1]

And in the case of *The United States Bank* v. *Dandridge*,[2] Mr. Justice STORY, in delivering the majority opinion of the supreme court of the United States, observes: "In ancient times, it was held that corporations aggregate could do nothing but by deed under their common seal. But this principle must always have been understood with many qualifications, and seems inapplicable to acts and votes passed by such corporations at corporate meetings. It was probably, in its origin, applied to aggregate corporations at the common law, and limited to such solemn proceedings as were usually evidenced under seal, and to be done by those persons who had the custody of the common seal, and had authority to bind the corporation thereby as their permanent official agent. Be this as it may, the rule has been broken in upon in a vast variety of cases in modern times, and cannot now as a general proposition be supported. And it is now firmly established, both in England and America, that a corporation may be bound by a promise, express or implied, resulting from the acts of a corporate vote unaccompanied with the corporate seal."[3]

[1] Bank of Columbia v. Patterson, 7 Cranch, 299. See, also, Gray v. Portland Bank, 3 Mass. 364; Gilmore v. Pope, 5 id. 491; Bank of Metropolis v. Guttschlick, 14 Pet. 19.

[2] 12 Wheat. 64.

[3] But in this case, MARSHALL, in his dissenting opinion, says; "Can such a being speak or act otherwise than in writing? Being destitute of the natural organs of man, being distinct from all its members, can it communicate its resolutions or declare its will, without the aid of some adequate substitute for those organs? If the answer to this question must be in the nega-

Sec. 259. **Same continued.** — Whatever may have been the doctrine of the common law, it is now evident that the acts of the directors of a corporate body, evidenced by a recorded vote, are as binding upon the corporation, and as complete authority to agents, as if such will was expressed in writing, authenticated by the common seal.[1]

tive, what is that substitute? I can imagine no other than writing. The will to be announced is the aggregate will. The voice which utters it is the aggregate voice. Human organs belong only to individuals. The words they utter are the words of individuals. These individuals must speak collectively to speak corporately, and must use a collective voice. They have no collective voice and must communicate this collective will in some other mode. That other mode, as it seems to me, must be in writing. A corporation will generally act by its agents, but those agents have no self-existing power. It must be created by law, or communicated by the body itself. This can be done only by writing. If, then, corporations were novelties, and all were required to devise the means by which they should transact their affairs, or communicate their will, we should, I think, from a consideration of their nature, of their capacities and disabilities, be compelled to say, that when other means were not provided by statute, such will must be expressed in writing. * * * According to the decisions of the courts of England, as well as of this court, a corporation, unless it be in matters to which the maxim *de minimis non curat lex* applies, can act or speak, and of course contract, only by writing. This principle, which seems to be an essential ingredient of its very being, has been maintained by all the judges who have ever discussed the subject. Upon this principle, and the authority of these cases, I have supposed that a corporation cannot assent to a deed of any description unless this assent be expressed regularly in writing. It ought to be entered on the books of the corporation."

In Mayor of Ludlow v. Charlton, 6 M. & W. 815, Rolfe, B., says. "The seal is required as authenticating the concurrence of the whole body corporate. If the legislature, in creating a body corporate, invest any member of it, either expressly or impliedly, with authority to bind the whole body by his mere signature, or otherwise, then, undoubtedly, the adding of the corporate seal would be matter purely of form and not of substance. Every one becoming a member of such a corporation knows that he is liable to be bound in his corporate character by such an act, and persons dealing with the corporation know that by such an act the body will be bound. But in other cases the seal is the only authentic evidence of what the corporation has done or agreed to do. The resolution of a meeting, however numerously attended, is, after all, not the act of the whole body. Every member knows he is bound by what is done by the corporate seal, and by nothing else. It is a great mistake, therefore, to speak of the necessity of a seal as a relic of ignorant times. It is no such thing. Either a seal, or some substitute for a seal, which by law shall be taken as conclusively evidencing the sense of the whole body corporate, is a necessity inherent to the very nature of a corporation." See, also, Kidderminster v. Hardwick, L. R., 9 Exch. 29.

[1] Bank of U. S. v. Dandridge, 12 Wheat. 64.

The weight of authority in this country seems to be in favor of the position that private corporations, or the boards of directors as agents for, and lawfully representing them, and through which the business of the corporation is transacted, may appoint an agent for the conveyance of even real estate by vote, without an instrument under the corporate seal. And that if the formality of a sealed instrument was required, it would not affect the au-

And a valid appointment of an agent for any purpose may be made without annexing to the authority or power of attorney a common seal.[1]

And the corporate will evinced by a vote recorded or unrecorded is, generally, as completely binding upon it, and confers as complete authority upon its agents as if authority was given under its corporate seal.[2]

SEC. 260. **The seal as evidence.** — It is said that the common seal of a corporation is not evidence of its own authenticity, but must be proved if controverted.[3] But this fact need not be shown by the agent who did it, or other person who saw it done.[4] It may be shown by any one acquainted with the seal or the motto, or device engraved thereon.[5] If the seal is affixed to an instrument by a proper officer, this would be *prima facie*, but not conclusive evidence of the corporate assent to the instrument.[6] The affixing of the seal by a proper officer, as by the president, would, at least,

thenticity of the conveyance, if the individual who acts as agent and affixes the seal derives his authority from a mere vote of the corporation. Dispatch Line, etc., v. Bellamy Man. Co., 12 N. H. 205.

[1] Bank of Alexandria v. Bank of Columbia, 5 Wheat. 326; Owings v. Speed, id. 420; Osborn v. Bank of U. S., 9 id. 738; Bank of Columbia v. Patterson, 7 Cranch, 299; Warren v. Ocean Ins. Co., 16 Me. 439; Methodist Chapel v. Herrick, 25 id. 354; Badger v. Bank of Cumberland, 27 id. 428; Trundy v. Farrar, 32 id. 225; Haven v. New Hampshire Asylum, 13 N. H. 532; Goodwin v. Union Screw Co., 34 id. 378; Andover Turnpike Co. v. Hay, 7 Mass. 102; Thayer v. Middlesex Ins. Co., 10 Pick. 326; Topping v. Bickford, 4 Allen, 120; Stamford v. Benedict, 15 Conn. 445; Dunn v. St. Andrew's Church, 14 Johns. 118; Powell v. Newburgh, 19 id. 284; Randall v. Van Vechten, id. 60; Clark v. Benton Man. Co., 15 Wend. 256; Baptist Church v. Mulford, 3 Halst. 182; Wolf v. Goddard, 9 Watts, 544; Elysville Manuf. Co v. Okiso Co., 1 Md. Ch. 392; Union Bank, etc., v. Ridgely, 1 H. & G. 424; Kennedy v. Baltimore Ins. Co., 3 H. & J. 367; Northern Central R. Co. v. Bastian, 15 Md. 494; Bates v. Bank, etc., 2 Ala. 461; St. Andrew's Bay Land Co. v. Mitchell, 4 Fla. 192; Lathrop v. Com. Bank, 8 Dana, 114; Richardson v. St. Johns Ins. Co., 5 Blackf. 146; Legrand v. Hampden Sidney Coll., 5 Munf. 324; Garrison v. Coombs, 7 J. J. Marsh. 85; City of Detroit v. Jackson, 1 Doug. 106.

[2] Bank of U. S. v. Dandridge, 12 Wheat. 68; New York R. Co. v. New York, 1 Hilt. 567; Merrick v. Burlington, etc., R. Co., 11 Iowa, 75; Buckley v. Briggs, 30 Mo. 452; Fleckner v. U. S. Bank, 8 Wheat. 357; American Ins. Co. v. Oakley, 9 Paige's Ch. 496.

[3] Jackson v. Pratt, 10 Johns. 281; Den v. Vreelandt, 7 N. J. L. 352; Foster v. Shaw, 7 S. & R. 163; Leazure v. Hillegas, id. 318; Crossman v. Hilltown, etc., Co., 3 Grant's Cas. 225; Mann v. Pentz, 2 Sandf. Ch. 271; Farmers' Turnpike Co. v. McCullough, 25 Penn. St. 203.

[4] Foster v. Shaw, 7 S. & R. 163; Darnell v. Dickens, 4 Yerg. 7; Moises v. Thornton, 8 T. R. 304.

[5] City Council v. Moorehead, 2 Rich. 430; Moises v. Thornton, 8 T. R. 304.

[6] Leggett v. New Jersey Manuf. Co., 1 N. J. Eq. 541; Reed v. Bradley, 17 Ill. 321.

furnish *prima facie* evidence of authority to so use it ;[1] and the use of the seal by such an officer, purporting to be the common seal, would, at least, be presumptive evidence that it was the corporate seal.[2]

In a recent case where the concluding part of a deed was in the following language: "In witness whereof the said B. C. S. Bank by J. S., *their* treasurer, duly authorized for this purpose, have hereunto set their name and seal," and signed "J. S., treasurer B— C— S— Bank," and sealed, it was held to be the deed of the bank.[3]

[1] Hopkins v. Gallatin Turnpike Co., 4 Humph. 403.

[2] Mill Dam Foundry v. Hovey, 21 Pick. 428 ; Flint v. Clinton Co., 12 N. H. 434. See, also, Miller v. Ewer, 27 Me. 509 ; Josey v. Railroad Co., 12 Rich. 134; Bowen v. Irish Presb. Cong., 6 Bosw. 263.

[3] Hutchins v. Byrnes, 9 Gray, 367. See, also, Haven v. Adams, 4 Allen, 80 ; Sherman v. Fitch, 98 Mass. 59 ; Eureka Co. v. Bailey Co., 11 Wall. 488 ; Tenney v. Lumber Co., 43 N. H. 343. But for contrary opinion, Hatch v. Barr, 1 Ohio, 390 ; Brinley v. Mann, 2 Cush. 337. See, also, Bank of the Metropolis v Guttschlick, 14 Pet. 19.

CHAPTER XI.

BY-LAWS.

SEC. 261. General principles relating to by-laws.
SEC. 262. Requisites of, and construction relating to by-laws.
SEC. 263. By-laws must be reasonable and not oppressive, nor contrary to the laws of the state.
SEC. 264. By-laws in restraint of trade.
SEC. 265. By-laws, when adopted by the corporate body.
SEC. 266. By-laws adopted by the directors.
SEC. 267. Distinction between by-laws adopted by the corporation and those adopted by directors.
SEC. 268. By-laws contrary to the general laws of the land void.
SEC. 270. Matters that may be regulated by by-laws.
SEC. 272. How by-laws are made.
SEC. 273. Repeal of by-laws.
SEC. 274. Functions of by-laws — effect on third persons.
SEC. 275. By-laws regulating the transfer of stock.
SEC. 277, 278. Providing for a corporate lien on stock.
SEC. 279. Notice conferred by the by-laws.
SEC. 280. By-laws cannot enlarge or abridge the rights of stockholders.

SEC. 261. **General principles relating to by-laws.** — Incident to and inherent in every corporation is the right to make by-laws, to regulate the management of its affairs and to fulfill the purposes of its institution.[1] The constating instruments seldom, if ever, provide in detail for the mode of executing the powers, express or implied, conferred upon a corporation, but such matters are left to be regulated by the corporation itself. In the absence of provisions in the constating instruments relating to by-laws, the power primarily vests in the corporate body.[2] But these instruments, especially in private corporations for pecuniary profit, usu-

[1] Dunston v. Imperial Gas Co., 3 B. & Ad. 125; Everett v. Grapes, 3 L. T. (N. S.) 669; Case of Sutton Hospital, 10 Coke, 23; Kearney v. Andrews, 9 N. J. Eq. 70; Martin v. Nashville Building Assoc'n, 2 Caldw. 418; City of London v. Vanacker, 12 Mad. 270; Newling v. Francis, 3 T. R. 189; Rex v. Westwood, 7 Bing. 90; Norris v. State, Hob. 21.

[2] People v. Throop, 12 Wend. 183; Child v. Hudson Bay Co., 2 P. Wms. 209; Salem Bank v. Gloucester Bank, 17 Mass. 29; Morton Gravel R. Co. v. Wysong, 51 Ind. 4; Martin v. Nashville Build. Assoc., 2 Coldw. 332.

ally provide for and vest the power of making by-laws in the board of directors.[1]

Sec. 262. **Requisites of, and construction of law relating to by-laws.** — It is a universally recognized doctrine that by-laws, whether made by the corporate body or a duly constituted and select body of persons, must not be repugnant to the constating instruments or the laws of the land,[2] nor in excess of the powers specifically conferred in this respect.[3] If the constating instruments provide for and enable the company, or the directors, to make by-laws for particular and certain specified purposes, this, on the maxim *expressio unius est exclusio alterius*, would undoubtedly exclude the making of by-laws for other purposes.[4] This doctrine is equally applicable to municipal as to private corporations. Sawyer, J., observes in relation to this rule of construction as applicable to the latter class as follows: "The power to make by-laws when not expressly given is implied as an incident to the very existence of a corporation; but in case of an express grant of the

[1] 2 Kent's Com. 296; *Ex parte* Willcocks, 7 Cow. 402; Cahill v. Kalamazoo Ins. Co., 3 Mich. 124; Rex v. Westwood, 7 Bing. 1.

[2] United States v. Hart, 1 Pet. 390; Bank v. Lanier, 11 Wall. 369; Case of Phil. Sav. Bank, 1 Whart. 461; Butchers' Association, 35 Penn. St. 151; Kennebec R. Co. v. Kendall, 31 Me. 470; Jay Bridge Co. v. Woodman, id. 573; People v. Tibbets, 4 Cow. 382; Auburn Academy v. Strong, Hopk. Ch. 278; Philips v. Wickham, 1 Paige, 590; Seneca Bank v. Lamb, 26 Barb. 595; Davis v. Meeting House, 8 Metc. 321; Carr v. St. Louis, 9 Mo. 190; State v. Conklin, 34 Wis. 21. Under the act incorporating a charitable asylum which authorized the trustees to make all proper and reasonable rules and regulations for the government of the corporation not inconsistent with the constitution and laws of the United States and of the state of New York,—*held*, that by-laws adopted by the trustees forbidding the inmates to leave the premises without permission from the governor of the asylum, or one of his assistants, or indulging in contention, or boisterous and disorderly conversation at table, on pain of expulsion, were reasonable, proper and valid; and that for a breach thereof, by an inmate, the governor was authorized to dismiss the offender from the institution, by the direction of the executive committee; after giving him reasonable notice of the examination and an opportunity of being heard, of exculpating himself, and of disproving the charge. People v. Sailors' Snug Harbor, 54 Barb. 532.

[3] Free School v. Flint, 13 Metc. 539; Bullard v. Bank, 18 Wall. 594; Bank v. Lanier, 11 id. 369. But see Lockwood v. Merchants' Nat. Bank, 9 R. I. 308; Dubois v. Augusta, Dudley (Ga.) 30; Williams v. Augusta, 4 Ga. 509; Adams v. Mayor, etc., 29 id. 56.

They cannot contravene the constitution. People v. Crockett, 9 Cal. 112. Nor the fundamental rules of common law. People v. Tibbets, 4 Cow. 382; Kennebec, etc., R. Co. v. Kendall, 31 Me. 470; Hayden v. Noyes, 5 Conn. 391; Adley v. Whitestable Co., 17 Ves. 315; Taylor v. Griswold, 2 N. J. Eq. 222.

[4] Child v. Hudson Bay Co., 2 P. Wms. 207; 2 Kyd on Corp. 102; Rex v. Spencer, 3 Burr. 1837; Dill on Mun. Corp., § 250; Redf. on Rail., § 26, par. 3.

power to enact by-laws limited to certain specified cases and for certain purposes, the corporate power of legislation is confined to the objects specified, all others being excluded by implication." [1]

SEC. 263. **By-laws must be reasonable, and not oppressive, nor contrary to the laws of the state.** — Whether the power to make by-laws is expressly conferred or implied from the constating instruments, such power is always subject to the restriction, that such by-laws must be reasonable, not oppressive, nor contrary to public policy, or the laws of the State. And this doctrine is applicable, not only to private but to municipal corporations.[2] So, by-laws must be fair and impartial and not in restraint of trade.[3] Thus, it has been held that a by-law, restraining a person from exercising the art of painting in the city of London, unless free of the company of painters, is void.[4] So, it has been held, that a by-law of a

[1] State v. Ferguson, 33 N. H. 424. See, also, Heisembittle v. Charleston, 2 McMull. 233; Wadleigh v. Gilman, 12 Me. 403; State v. Clark, 8 N. H. 176; State v. Freeman, 38 id. 426; Commonwealth v. Turner, 1 Cush. 493; Collins v. Hatch, 18 Ohio, 523; New Orleans v. Philippi, 9 La. Ann. 44; State v. Morristown, 33 N. J. L. 57.

[2] Kip v. Paterson, 26 N. J. L. 298; Commissioners v. Gas Co., 12 Penn. St. 318; Fisher v. Harrisburg, 2 Grant's Cas. 291; Commonwealth v. Robertson, 5 Cush. 438; Waters v. Leech, 3 Ark. 110; Mayor v. Winfield, 8 Humph. 767; People v. Throop, 12 Wend. 183; Mayor v. Beasley, 1 Humph. 232; State v. Freeman, 38 N. H. 426; White v. Mayor, etc., 2 Swan, 564; Pedrick v. Bailey, 12 Gray, 161; Dunham v. Rochester, 5 Cow. 462. They must be reasonable and not oppressive or vexatious. Commonwealth v. Gill, 3 Whart. 228; St. Luke's Church v. Matthews, 4 Des. Ch. 578; People v. Crockett, 9 Cal. 112; Howard v. Savannah, T. Charlt. 173. See, also, Slee v. Bloom, 19 Johns. 456; Davis v. Prop. of Meeting-house, 8 Metc. 321; Amesbury v. Insurance Co., 6 Gray, 596; Cooper v. Frederick, 9 Ala. 738; Commissioners, etc., v. Gas Co., 12 Penn. St. 318; Green's Brice's Ultra Vires, 12 *et seq.*; Mayor, etc., v. Winfield, 8 Humph. 707; Mayor, etc., v. Beasly, 1 id. 232; St. Louis v. Weber, 44 Mo. 547; Kennebec, etc., R. Co. v. Kendall, 31 Me. 470.

[3] Tailors, etc., v. Ipswich, 11 Rep. 53; Chamberlain, etc., v. Compton, 7 D. & R. 601; King v. Coopers' Co., 7 T. R. 543; Clark v. Lecren, 9 B. & C. 52. But it has been held that a by-law is not in restraint of trade, which requires loaves of bread baked for sale to be of specified weight and properly stamped, or which requires bakers in a city to be licensed. Mayor, etc., v. Yuille, 3 Ala. 137.

Whether a by-law is reasonable is to be decided by the court. Commonwealth v. Worcester, 3 Pick. 473.

[4] Clark v. Lecren, 9 B. & C. 52; Chamberlain, etc., v. Compton, 7 D. & R. 597. A provision in the by-laws of a bank that its "shares shall be transferable by indorsement in writing by the holder in presence of the cashier or two other witnesses," requires that the cashier or two other witnesses shall in writing attest the signature of the holder in order to render the transfer valid between the parties. Dane v. Young, 61 Me. 160. Membership in a cotton exchange constitutes property which is subject to be applied in payment of the debts of the member, and restrictions in the by-laws on the sale or assignment of shares or right of membership will

bank, that all payments made or received by the bank must be examined at the time, and mistakes corrected at the time, or the bank would not be responsible therefor, was unreasonable and invalid, and that a recovery might still be had, for an overpayment discovered afterward. But in such a case, the regulation being reasonable, it is evident that if known to the party

not destroy the character as property of such shares or right of membership. Ritterband v. Baggett, 42 N. Y. Superior Ct. 556. An incorporated company loaned money to a member of the company upon its stock owned by him, to be repaid in weekly installments, and took a mortgage to secure payment, by which he agreed to pay such fines and penalties as might be imposed upon him by the by-laws of the company. He failed to pay an installment when due, but tendered the amount on the succeeding day. The secretary of the company refused to receive it unless he would also pay the fine imposed by a by-law of the corporation upon those who neglected to pay the weekly installments when due. The mortgagor tendered each week thereafter until the date of a decree for the sale of the mortgaged premises, the amount of the accrued and accruing installments, but refused to pay the fines claimed to be due. *Held*, that while the mortgagor, by his failure to pay punctually the weekly installment when due, subjected himself to the fine provided by the by-law for such default, his tender thereafter of the weekly installments as the same fell due, exempted him from liability to further fines. His refusal to pay the first fine did not give the right to impose additional fines. Pentz v. Fire Ins. Co., 35 Md. 73. Under the rule that the by-laws of corporations must be reasonable, and that all which are vexatious, unequal, oppressive, or manifestly detrimental to the interests of the corporation, are void, a by-law of a benevolent association, providing, as a penalty for the non-payment of dues, that the delinquent should forfeit his right to any benefits while in arrears, and for a period of three months after the payment of arrears, is invalid. Cartan v. Father Matthew, etc., Soc., 3 Daly (N. Y. C. P.), 20.

A by-law of a bank is a contract between the stockholders; and the ordinary rules of construing contracts apply: in its construction, and, if possible, it should be so construed, *ut res magis valeat, quam pereat.* *Re* Dunkerson, 4 Biss. 227.

In *quo warranto* to determine the defendant's title to the office of treasurer of an incorporated benevolent society, his answer averred that he was duly elected in a meeting held and called at a certain church and hour, "the same as every other annual meeting has been called and notified since the organization of said society." The complaint showed that at least three annual meetings for such election had been held before this one. *Held*, that this was a sufficient averment under the Wisconsin Code, of a usage of the kind, and that such usage, if proven, would show a valid, practical construction by the society itself, of the by-law relating to holding the annual meeting and election. State v. Conklin, 34 Wis. 21.

A by-law, which is a mere rule for the government of the officers of the corporation in conducting their own business, can have no effect upon the contracts of the corporation with other parties. Samuels v. Central, etc., Exp. Co., McCahon, 214.

Where the by-laws of a corporation express an individual liability of members for company debts, and each member subscribed the by-laws merely to become a member, this is not enough to sustain an action by a creditor of the company against a member for the amount due. The office of a by-law is to regulate the duties of members toward the corporation and among themselves. A third party can enforce them only when he shows some privity; as where his claim is for value advanced upon the credit of the by-law and the signature, or the like. Flint v. Pierce, 99 Mass. 68.

depositing, it would impose on him the necessity of showing clearly that the mistake occurred.[1]

SEC. 264. **By-laws in restraint of trade.** — It has, however, been held in England that by-laws even in restraint of trade will be sustained, where the corporations are very ancient, and they

[1] Mechanics and Farmers' Bank v. Smit, 19 Johns. 115; Gallatin v. Bradford, 1 Bibb, 209; Hayden v. Noyes, 5 Conn. 391; Peck v. Lockwood, 5 Day, 22; Marietta v. Fearing, 4 Ohio, 427; *Ex parte* Burnett, 30 Ala. 461; Austin v. Murray, 16 Pick. 121; Milhau v. Sharp, 17 Barb. 435; 27 N. Y. 611; Dunham v. Trustees, etc., 5 Cow. 462; Strauss v. Pontiac, 40 Ill. 301; Austin v. Murray, 16 Pick. 125; Wreford v. People, 14 Mich. 41. Under this rule it is held that a corporation organized under a statute which authorizes it to make by-laws for "the management of its property, the regulation of its affairs, and the transfer of its stock," and further provides, that the stock of the company "shall be transferable in such manner as shall be prescribed by the by-laws of the company," has power to make a by-law providing that no transfer of stock shall be made upon the books of the corporation, until after the payment of all indebtedness to the corporation due from the person in whose name the stock stands on its books. Pendergast v. Bank of Stockton, 2 Sawyer, 108. So too a by-law of a New York manufacturing company, which assumes to prohibit a transfer of stock by the owner, because he is indebted to the company, is *ultra vires* and void. The statutory power of these companies to make by-laws on that subject only extends to prescribing the manner and form in which transfers shall be made. Driscoll v. West, etc., Manuf. Co., 36 N. Y. Superior Ct. 488. A national bank cannot, even by provisions framed with a direct view to that effect in its articles of association and by direct by-laws, *acquire a lien on its own stock held by persons who are its debtor;* and a by-law attempting to create, in favor of the bank, a lien on stock held by its debtors, is not a regulation of the business of the bank, or a regulation for the conduct of its affairs, within the meaning of the national banking act, and, therefore, not such a regulation as, under that act, national banks have a right to make. Bullard v. Bank, 18 Wall. 589. And see Rosenback v. Salt Springs Nat. Bank, 53 Barb. 495; Conklin v. Second Nat. Bank, id. 512, note; 45 N. Y. 655. To the contrary, Lockwood v. Mechanics' Nat. Bank, 9 R. I. 308. A by-law of a national bank which declares that no transfer of stock, the holder of which is at the time indebted to the bank, shall be made without the consent of the directors, attempts to create a lien upon the stock for the debts of the holder, and is contrary to the provision of the act which forbids loans by such banks upon the security of their own stock. Evansville Nat. Bank v. Metropolitan Nat. Bank, 2 Biss. 527. The right of alienation is an incident of property; and a by-law of a bank prohibiting the alienation of stock therein, or putting restrictions thereon, is void, as being in restraint of trade. Moore v. Bank of Commerce, 52 Mo. 377. Under the principle that a by-law of a corporation which is clearly unreasonable and contrary to public policy is void, a by-law of a merchants'exchange which requires members to submit their controversies to arbitration, on pain of expulsion if they bring suit, is invalid. The law favors arbitration when it is acceptable to both parties to a difficulty. But every citizen must be protected in his right to resort to the courts if he prefers. State v. Union Merchants' Exchange, 2 Mo. App. 96. A by-law of a chamber of commerce, providing for the expulsion of a member for non-compliance with the terms of any contract, whether verbal or written, is reasonable and valid, and enforceable, even though the contract violated were void by the statute of frauds, or as not made "during a session of 'Change." Dickenson v. Chamber of Commerce, 29 Wis. 45.

"are supported by special customs which suppose a former grant of a monopoly." [1] But in such cases the custom must be strictly proved to be in harmony with the by-laws; and the doctrine cannot be applied to new corporations.[2]

Sec. 265. **By-laws adopted by the corporate body.** — If by-laws are lawfully framed and adopted by the corporate body, relating to the powers and duties of the directors, they become as to them the fundamental law, and hence a board of directors can no more disregard such by-laws of the corporate body than they could the provisions of the incorporating statute or other constating instruments.[3]

Sec. 266. **By-laws adopted by directors.** — Where the directors have authority conferred upon them, to make by-laws, either by the constating instruments or by the corporation, they may adopt such as they deem proper, provided they come within the scope of the authority conferred upon them. In the exercise of this power they may do whatever the corporate body itself might

[1] Bosworth v. Budgen, 7 Mod. 459; Colchester v. Goodwin, Carter, 117; Bricklayers and Plasterers, Palm. 395, Hardres, 56; Player v. Jones, 1 Vent. 21; Broadnox's Case, id. 196; Bosworth v. Hearne, Andre, 97; 2 Stra. 1085; *Case temp.* Hardw. 408; Player v. Vere, T. Raym. 288; Bodwic v. Fennell, 1 Wils. 233; Harrison v. Goodman, 1 Burr. 16; Hesketh v. Braddock, 3 id. 1858; Wooley v. Idle, 4 id. 1952; The King v. Coopers' Co., 7 T. R. 543; The King v. Tappenden, 3 East, 186; Chamberlain, etc., v. Compton, 7 D. & R. 601; Clark v. Denton, 1 B. & Ad. 92; Clark v. Le Crean, 9 B. & C. 52.

[2] Hesketh v. Braddock, 3 Burr. 1858; Colchester v. Goodwin, Carter, 117. But see Fazakerly v. Wiltshire, 1 Stra. 466; Bolton v. Throgmorton, Skin. 55. But see Wilc. on Corp. 146. See, also, as to ordinances of municipal corporations in restraint of trade, Dunham v. Rochester, 5 Cow. 462; Freeholders v. Barber, 7 N. J. L. 64.

On the subject of the reasonableness of by-laws, see People v. Medical Soc. of Erie, 24 Barb. 570; S. C., 32 N. Y. 187. See, also, State v. Ferguson, 33 N. H. 430; Phillips v. Allen, 41 Penn. St. 481; Kirk v. Nowill, 1 T. R. 124; White v. Tallman, 26 N. J. L. 67; Hart v. Albany, 9 Wend. 588; Peoria v. Calhoun, 29 Ill. 317; St. Paul v. Coulter, 12 Minn. 41. But "in this country," observes Mr. Dillon, "corporations derive all their powers from legislative acts of comparatively modern date, and prescriptive customs, in restraint of trade or against common right, are unknown." Commonwealth v. Stodder, 2 Cush. 562; Herzo v. San Francisco, 33 Cal. 134.

[3] See opinion of Justice Miller, in Samuel v. Holladay, 1 Woolw. (C. C.) 400; Cummings v Webster, 43 Me. 192; Anacosta Tribe v. Murbach, 13 Md. 91; Brick Pres. Church v. Mayor, etc., 5 Cow. 538; McDermott v. Board, etc, 5 Abb. Pr. 442. But the legislature cannot authorize the making of a by-law contravening, repealing, or in any way changing the statutory or common law of the land. Seneca County Bank v. Lamb, 26 Barb. 595; Kynaston v. The Mayor, etc., 2 Stra. 1051; King v. Theodorick, 8 East, 543; Stow v. Wyse, 7 Conn. 214; Warner v. Mower, 11 Vt. 385; State v. Ancker, 2 Rich. 245.

in this respect have done, if the power had not been vested in them.

If the authority is conferred upon them by the constating instruments, it is exclusive of the authority of the corporate body to act in the premises.[1]

But, if the authority is conferred by the corporation upon them, such authority may, like the authority of an agent generally, be revoked at any time. But such revocation could not affect the vested rights of parties, by virtue of the powers exercised by such agents before such revocation.

The acts of such directors, however, will be in all cases subject to such limitations and restrictions in the adoption of by-laws as we have noticed is imposed upon the corporate body itself in this respect. In fact the authority to the directors may be even more limited than that possessed by the body itself, where the authority proceeds from it.[2] In such a case the power to act must depend upon the provisions of the act conferring it. But if it is one in general to make such by-laws as may be necessary and proper to regulate and conduct the business of the corporation, then it would be construed as giving them complete authority in that respect, limited only in the manner we have stated where they are framed by the corporate body. But we have already considered this subject in treating of directors.

SEC. 267. **Distinction between by-laws adopted by the corporation and those adopted by directors.** — The distinction between by-laws

[1] Dana v. Bank of U. S., 5 W. & S. 247; MARSHALL, C. J., in Bank of U. S. v. Dandridge, 12 Wheat. 113; Dayton, etc., R. Co. v. Hatch, 1 Dis. 84; Conro v. Port Henry Iron Co., 12 Barb. 27, in which the court say: "It is quite obvious from the charter that the company could do no act except through the directors. When the charter prescribes the mode of its action, its injunctions must be rigidly pursued. * * * The stockholders in this case had no power to make a lease, or do any other administrative act in the management of the affairs of the corporation. If a lease could be made at all, it could be executed only in pursuance of the act of the directors, who are the body appointed by the charter for the management of its affairs. It is no answer that individual stockholders who were present at the meeting when the lease was ordered, were also directors. They did not meet and act as directors, but as stockholders."

[2] If the general power of making by-laws is by the provisions of the charter vested in the corporation itself, it may circumscribe the powers of the board of directors. Salem Bank v. Gloucester Bank, 17 Mass. 29. See, also, Fleckner v. United States Bank, 8 Wheat. 338; State of Louisiana v. Bank of Louisiana, 6 La. 745; Whitewell, Bond & Co. v. Warner, 20 Vt. 425; Ridgeway v. Farmers' Bank, 12 S. & R. 256.

adopted by the corporate body and those of the directors is pointed out by Mr. Justice Miller in a recent case, in which it was attempted to set aside a trust deed as void, because the meeting of the board of directors at which the president of the company was authorized to execute the instrument was held without the notice prescribed for such meetings by a by-law adopted by the directors. He says: "Such a by-law, when made by the board of directors for their government, cannot be extended to affect contracts with third persons. There are many cases in which it has been held that notice of special meetings must be given as required by the by-laws, or the meetings would be wholly without authority, and all business attempted to be then done would be of no binding force upon the corporation. But in all these cases, and in all others in which the same rule is laid down, the by-laws were made by the stockholders at the annual and stated meeting, under the authority and direction of a provision of the charter. In such cases the stockholder may be supposed to retain a control over the management of their affairs and intend to put a restraint upon their agents. Their will, expressed in the by-laws, becomes a rule to the directors. It cannot be disregarded any more than a provision in the charter. But the reason for the rule fails when the by-law is made by the directors for the government of themselves in the management of the business of the corporation. The same power which enacts can repeal the law. It is a mere guide for their own convenience, and for the orderly conduct of their business. It cannot be extended to affect the validity of acts done in disregard of it, especially when third parties are concerned."[1]

We have already considered the subject of notice as imparted by the by-laws, and the acts, documents and instruments for incorporation, in treating of directors and agents.[2]

[1] Samuel v. Holladay, 1 Woolw. (C. C.) 400. See, also, Brick Presbyterian Church v. The Mayor, etc., 5 Cow. 538; The Mechanics', etc., Bank v. Smith, 19 Johns. 115; Seneca Co. B'k v. Lamb, 26 Barb. 595; Com. Dig., tit. By-law, chap. 2; Dodwell v. The University of Oxford, 2 Vent. 33; Vandine, Petitioner, 6 Pick. 187; Sargeant v. The Essex Marine R. Co., 9 id. 202; Commonwealth v. The Mayor, etc., 5 Watts, 152.

[2] See chap. 6 and 7. See, also, Fay v. Noble, 12 Cush. 1; Wyman v. Hallowell, etc., Bank, 14 Mass. 58; State v. Commercial Bank, 6 S. & M. 237; Risley v. Ind. B. & W. R. Co., 1 Hun, 202; Adriance v. Roome, 52 Barb. 399; Lowell Sav. Bank v. Winchester, 8 Allen, 109.

SEC. 268. **By-laws contrary to the general laws of the land, void.** — It has been noticed that by-laws contrary to the law of the land were void; but a fuller statement and illustration of the subject may be required.

And first, we may say that a by-law of the directors, who receive their authority directly from the corporate body, in conflict with any by-law or regulation of the body itself, would be void.[1] For, as in such a case the powers of the agents are subordinate, on general principles, to the authority of the principal, the principal may prescribe and limit the authority of the agent in any manner that may be deemed proper.

Secondly, the by-laws of either the directors or of the corporate body must not conflict with the provisions of the charter, corporate acts, articles of association, deed of settlement, certificate, or other original and constating instruments.[2] These become, by acceptance and adoption, the fundamental law of the institution, the constitutional law of the body, and paramount to the by-laws which may be adopted.

Thirdly, they must not conflict with the constitution of the state or of the general government. For, as the legislature has no authority to pass laws in conflict with such constitution, so it of course follows that they cannot authorize others to do so; and any by-law in conflict with either, or that authorizes any infringement of personal rights or privileges secured to individuals by either, would be null and void. Therefore, no by-law can impair the obligation of a contract, or provide for the taking of the private property of a person for the use of the corporation, without just compensation,[3] or authorize the violation of any other rights secured by constitutional provisions,[4] or impose any personal or individual liability beyond such as is specified in the charter,

[1] Salem Bank v. Gloucester Bank, 17 Mass. 29. See, also, Whitewell v. Warner, 20 Vt. 425; Bank of Middlebury v. Rutland, etc., R. Co., 30 id. 159; Augusta Bank v. Hamblet, 35 Me. 491; Hoyt v. Thompson, 19 N. Y. 207.

[2] Hoyt v. Shelden, 3 Bosw. 267; Hoyt v. Thompson, 19 N. Y. 207; Rex v. Spencer, 3 Burr, 1839; King v. Ginever, 6 T. R 735. See, also, State v. Curtis, 9 Nev. 325 (1874).

[3] Ang. & Am. on Corp., § 333; Stuyvesant v. Mayor, 7 Cow. 585; New York v. New York, 3 Duer, 119.

[4] Id. See, also, Coates v. New York, 7 Cow. 604; Goszler v. Georgetown, 6 Wheat. 593; Bank v. Lanier, 11 Wall. 369; Kennebec R. Co. v. Kendall, 31 Me. 470; Jay Bridge Co. v. Woodman, id. 573; Carr v. St. Louis, 9 Mo. 190; State v. Conklin, 34 Wis. 21.

incorporating laws, or other constating instruments under which it is constituted.[1]

Fourthly, by-laws infringing the laws of congress, made in pursuance of the constitution,[2] the general statutes of a state, or particular statutes relating to the corporation (provided these do not impair the obligation of the charter), are void.[3]

Fifthly, they must not be contrary to the general principles of the common law, as recognized in the state, or of general public policy.[4]

Sec. 269. It is true, however, that the legislature, having paramount authority, except so far as restrained by the constitution of the state, may authorize acts which interfere with rights which may be said to be generally possessed by persons.[5] This subject has been illustrated by Mr. Justice Evans as follows: "If there was no law interfering, the butcher might kill his hogs and beeves in the street. If the butcher could do it any man might, and it might, therefore, be said to be a common right; but when the law prohibited it, it was no longer a common right. A legal restraint may be imposed on a few for the benefit of the many."[6]

[1] Taylor v. Griswold, 2 N. J. Eq. 222; Lee v. Wallis, 1 Key. 292; Sayer, 262; People v. Tibbets, 4 Cow. 382; Kennebec R. Co. v. Kendall, 31 Me. 470. And it has been held that a by-law, which assumes to prohibit the transfer of stock by the owner, because he is indebted to the company, is *ultra vires* and void. Driscoll v. West Bradley Man. Co., 36 N. Y. Superior Court, 488.

[2] Free School v. Flint, 13 Metc. 539.

[3] United States v. Hart, 1 Pet. (C. C.) 390.

[4] Norris v. Staps, Hob. 211, Clark's Case, 5 Coke, 63. See by-laws, 3 Salk. 76; Rex v. Barber Surgeons, 1 Ld. Raym. 585; Rex v. Miller, 6 T. R. 277; Rex v. Haythorne, 5 B. & C. 425; Williams v. Great Western R. Co., 10 Exch. 15; 28 Eng. L. & Eq. 439; Butchers' Ben. Association, 35 Penn. St. 151; Auburn Academy v. Strong, 1 Hopk. Ch 278; Jay Bridge Co. v. Woodman, 31 Me. 573; Connecticut R. Co. v. Bailey, 24 Vt. 465.

[5] Taylor v. Griswold, *supra*. See, also, Philips v. Wickham, 1 Paige, 598.

[6] City Council v. Ahrens, 4 Strobh. (S. C.) L. 241; City Council v. Baptist Church, id. 306; Peoria v. Calhoun, 29 Ill. 217; St. Paul v. Colter, 12 Minn. 41. As transcending the charter, by-laws creating a new office, imposing an oath of office where none is provided by the constitution [of the corporate body], giving a vote to a person or a casting vote to an officer who is not entitled to it by the charter, restricting the right of an officer to vote to a mere casting vote in case of a tie, restricting or extending the right of admission or eligibility to office, or restricting the discretionary power of removing a master or usher of a grammar school vested in the governors, as given by the charters, altering the prescribed mode of election, or imposing new and additional tests or qualifications on members or voters; delegating the power of laying assessments to the directors when the charter or

SEC. 270. **Matters that may be regulated by by-laws.** — The term "by-law" is used to designate those regulations which a corporation has a right to make, either directly as a corporate body, or by a

general law vests it exclusively in the corporation, or changing the salaries of officers, or imposing a personal liability for the debts of the corporation not contemplated by the charter, are void. And where a by-law confers the right of voting by proxy, or imposes the ownership of a certain number of shares as a qualification for office or admission, there being nothing in the charter expressed or implied specially authorizing such by-law, or, where in cases of a "savings institution," a by-law is passed, prescribing that persons owning one share of the capital required to be invested for the purpose of security to the depositors should be members, and should cease to be members upon its transfer, the by-law is held void, as invading the spirit and meaning of the charter. So, where the act incorporating an insurance company gave a vote for each share of stock, but provided that no share should entitle the holder to a vote unless the stock should have been held by him at least sixty days next and immediately preceding an election, and provided that the major part of the directors should constitute a board, with power to pass such by-laws as to them should appear needful and proper respecting elections, and they passed a by-law requiring a transfer of stock to be registered in order to be effectual, it was held that a by-law requiring the inspectors of elections, whenever they should or might suspect that stock voted on had been sold or bargained for within the sixty days, but not transferred on the books, to oblige the person proposing to vote on such stock to adduce satisfactory proof, either by his own oath or affirmation or otherwise, that the stock had not been sold, or the beneficial interest parted with by any bargain or contract within the sixty days, and in default of such proof to reject the vote, was void; and that the vendor might vote, notwithstanding the transfer within sixty days, the same being unregistered; the inspectors having no right to require other tests of a voter than those provided in the act of incorporation, and it not being competent to the directors to pass any by-laws at variance with the provisions of the same. An act incorporating a church provided that the vestry should be elected "in the manner accustomed," which was at a certain time and place, by the inhabitants of the parish, being of the religion of the church of England, and possessing certain other enumerated qualifications. It was held that a by-law made by the vestry, enacting that no person should be admitted a member of the church, or be entitled to the privilege of a vote in the election of the vestry, unless he should pay the sum of fifty dollars, a qualification not named in the charter, was void; inasmuch as 'it required a new qualification to entitle persons otherwise entitled to vote, and was therefore an attempt to transcend the powers given, and to alter the qualifications of the voters, and was a violation of the charter."

And generally, where the charter vests the admission of members in the body at large, a power vested in the directors, to provide for the admission of members, gives them only a right to prescribe in their by-laws, the time, place, and manner of holding the election of members, and not the right to pass a by-law imposing a test of membership not contemplated by the charter, as the ownership of a share in the capital stock of a "savings institution." In a recent case in England, it was decided, that a by-law of a navigation company, that the navigation should be closed on Sundays, except for works of necessity, and for the purpose of going to and returning from any place of divine worship, was not authorized by a charter empowering the company to make by-laws for the good government of the company and for the good and orderly using of navigation, and also for the well governing of the bargemen, watermen, and boatmen, who should carry goods on any part of the navigation, on the ground, that the power of making by-laws was vested in them solely for the orderly use of the navigation, and not for the purpose of controlling the

select body of its own members, by virtue of a power conferred by the corporation, the statute or constating instruments. These by-laws or regulations may, in fact, be a part of the constating instruments. But they are usually, in cases of corporations for pecuniary emolument, referred to the board of directors to frame and adopt; and they may properly regulate all those internal affairs of the corporation, in the prosecution and management of the business for which it was organized, and for the management of which there are no other regulations in the charter or constating instruments.

Sec. 271. The statute and other corporate and constating instruments are the superior or constitutional law of the corporation; by which the authority is conferred upon the corporate body, or a select body of the corporators, to frame by-laws, for the general management of the business of the corporation, subject to the limitations specifically prescribed, and such as we have noticed as on general principles are applicable thereto. And by-laws thus legally adopted have, in respect to the matters of which they are appropriately the subject of regulation, the force and effect of a legislative act.[1]

Thus, subject to the conditions before stated, they may provide for the time and place of meeting of the stockholders; for the time and manner of giving notice thereof; how the directors shall be elected; in what way the will of the members shall be expressed, as by ballot or otherwise; how vacancies in the board of directors may be filled; how the other officers shall be appointed

moral or religious conduct of carriers along the navigation, which is to be left to the general law of the land, and to the laws of God. Rex v. Bird, 13 East, 384; Rex v. Ginever, 6 T. R. 736; McCullough v. Annapolis R. Co., 4 Gill. 58; Rex v. Coopers, etc., 7 T. R. 548; Rex v. Atwood, 1 Nev. & M. 286; Rex v. Weymouth, 7 Mod. 373; Queen v. Governors, etc., 6 Q. B. 682; Queen v. Sadlers' Co., 10 H. L. Cas. 414; 3 Ell. & E. 42; 4 B. & S. 570; *Ex parte* Winsor, 3 Story, 411; Carr v. St. Louis, 9 Mo. 191; Free Sch., etc., v. Flint, 13 Metc. 539; Kennebec R. Co. v. Kendall, 31 Me. 470; Phillips v. Wickham, 1 Paige, 598; Taylor v. Griswold, 2 N. J. Eq. 223; Commonwealth v. Gill, 3 Whart. 228; Andrews v. Union Ins. Co., 37 Me. 256; People v. Tibbets, 4 Cow. 358; Rollins v. Columbia Ins. Co., 5 Fost. 200; Calder Navigation Co. v. Pilling, 14 M. & W. 75.

[1] Helland v. Lowell, 3 Allen, 407; Church v. City, etc., 5 Cow. 548; St. Louis v. Boffinger, 19 Mo. 13; McDermott v. Board of Police, 5 Abb. Pr. 422; Taylor v. Carondelet, 22 Mo. 105; Hopkins v. Mayor, etc., 4 M. & W. 621.

or elected, and their qualifications; what number shall constitute a quorum of meetings held by directors; how vacancies in offices shall be filled; how committees shall be appointed, and their powers and duties; how special or general agents may be appointed, and their duties, qualifications and powers; when and where meetings of the board of directors, or of the corporate body shall be held, or when called, and what notice of the same shall be given; what bond, if any, shall be required of officers, and who shall approve of the same; what books of the company shall be kept, and by whom and how, and for what purpose; how the by-laws may be repealed or amended; for the transfer of stock from one to another; and for securing to the corporation a lien on all such stock, for all debts due the corporation. Of course the by-laws, whether made by the corporate body or by the board of directors, can confer no power upon themselves or their agents not possessed by the corporation. And any attempt to exercise such powers would be *ultra vires* and, as we have seen, void. The distinction between a corporation and an individual in this respect is, that a corporation is an artificial person created for a specific purpose, and its powers are limited by the acts and instruments of its creation, and it can only execute such contracts and perform such acts as it is authorized to make and perform, in this respect differing from a natural person who may perform all acts, and execute all contracts which are not forbidden by some positive law.[1] The rights of natural persons in this respect are limited only by provisions of law, or public policy, which is a part of the law.

A corporation authorized by statute to make by-laws for the management of its property, the regulation of its affairs, and the transfer of its stock, has power to make a by-law providing that no transfer of stock shall be made upon the books of the corporation until after the payment of all indebtedness to the corporation due from the person in whose name the stock stands on its books.[2]

[1] Root v. Wallace, 4 McLean (C. C.), 3; Davis v. Bank, etc., id. 387; Gage v. New Market R. Co., 18 Q. B. 457; 14 Eng. L. & Eq. 57; Preston v. Liverpool R. Co., 5 H. L. Cas. 605. But by-laws can have no retroactive effect. And *ex post facto* laws by corporations are no more lawful for corporations than for states. Pulford v. Fire Dept. of Detroit, 31 Mich. 458.

[2] Pendergrast v. Bank of Stockton, 2 Saw. 108. And if the making of by-

Sec. 272. **How by-laws are made.** — In treating of corporate meetings we stated the manner in which the corporate will was expressed, viz.: by the voice or vote of the majority, and that this majority was, unless otherwise provided, the voice or vote of those representing a majority of the stock; each share entitling the holder to a vote on all questions submitted at a meeting of the corporate body. If the power to adopt by-laws is conferred upon the directors, a majority of them, or of those constituting a quorum for doing business, may adopt or enact them.[1]

But in whatever manner, either by the corporate body or by the board of directors, they may be enacted, it should be done at a meeting duly called and lawfully held. If there is a mode of enacting by-laws prescribed by the constating instruments, that mode must be pursued;[2] but in the absence of any prescribed mode, such by-laws are usually prepared by some committee appointed for that purpose by the corporate body or the board of directors, as the case may be, and adopted by resolution or otherwise, by such body or board, at a lawful meeting, and duly recorded by the proper officer.[3]

This is the usual and regular way of enacting or making by-laws; but it has been held that this mode of adopting them is not absolutely essential. In fact, it appears from the adjudications that by-laws may be inferred, without proof of their actual or formal adoption in any manner by the corporation or the directors. Thus, as it has been observed of a corporation, "that it may adopt by-laws, as well by its own acts and conduct, and the acts and conduct of its officers, as by an express vote or an adoption in writing."[4]

laws vests in the corporate body it may confer the power on the board of directors, and they may be limited by them. Salem Bank v. Gloucester Bank, 17 Mass. 29.

[1] Wilcocks, 7 Cow. 402; Cahill v. Kalamazoo Ins. Co., 3 Mich. 124.

[2] State v. Jersey City, 27 N. J. L. 493; Sower v. Philadelphia, 35 Penn. St. 231; Gas Co. v. San Francisco, 6 Cal. 190; Municipality v. Cutting, 4 La. Ann. 335; Cincinnati v. Gwynne, 10 Ohio, 192; Markle v. Akron, 14 id. 586.

[3] Union Bank, etc., v. Ridgely, 1 Harr. & G. 324; Fairfield v. Thorp, 13 Conn. 173; Langsdale v. Bonton, 12 Ind. 467.

[4] In the case of the Union Bank of Maryland v. Ridgely, 1 H. & G. 324, where it appeared that, by charter, the president and directors of the bank were authorized to make all such by-laws and regulations for the government of the corporation, its officers and members, as they or a majority of them

SEC. 273. **Repeal of by-laws.**— It is a common doctrine relating to legislative bodies, that where they have authority to make laws they have also authority to repeal them; and that the power to make includes the power to repeal. This doctrine is applicable to private corporations, and they or the boards of directors may not only make by-laws for the regulation and management of their affairs, but amend or repeal the same.[1]

The general doctrine in reference to legislative bodies is, that no such body can part with its privileges so as to prevent the exercise of the same again, and hence that they may repeal or modify any act passed by them. But this doctrine does not apply to those cases of grant of rights and privileges to private corporations, which, as we have seen, have the character of contracts, and become vested rights in the corporators. This doctrine is applicable to corporate bodies, or boards of directors thereof, in reference to by-laws. They have the power to repeal or modify the same; but this power cannot be used to impair the rights of parties which have been conferred, and are vested in them, under and by virtue of the repealed or amended by-law. "The repeal

should from time to time think fit; upon a certain writing being given in evidence, headed 'By-laws,' and which purported to have been the by-laws of the bank, while its business was transacted under articles of association, and before the act incorporating it was passed, it was objected that there was no evidence that the writing produced had been adopted as the by-laws of the corporation, there being no entry or memorandum of such adoption among the minutes of its proceedings. The court of appeals of Maryland, however, decided that authority to make by-laws being specially delegated to the president and directors, without the mode of exercising it being prescribed by the charter, it was no more necessary that their adoption should be in writing than that the acts or contracts of any other duly authorized agent; and it being proved by the cashier that the by-laws in question were always reputed to be the by-laws of the corporation, and with the exception of two articles, were so observed by him; and by a director, that they were delivered to him as such, upon his election, and that the decisions by the board of directors were made agreeably to them in any question upon their conduct; this was held a sufficient adoption of the by-laws by the president and directors, and sufficient proof of the same, there being no record or minute of the fact. As a corporation has a legal existence only within the state of its creation, all acts by it, including the making of by-laws, must be within such state. Mitchell v. Vermont Copper Min. Co., 49 N. Y. Superior Ct. 406.

[1] Rex v. Ashwell, 12 East, 22; 3 T. R. 198; State v. Pinto, City Clerk, etc., 7 Ohio St. 355; Stoddard v. Gilman, 22 Vt. 568; Pond v. Negus, 3 Mass. 230; Bigelow v. Hillman, 37 Me. 52; Reiff v. Connor, 11 Ark. 241; Road Cases, 17 Penn. St. 71; Rex v. Westwood, 4 B. & C. 806.

cannot operate retrospectively to disturb private rights vested under it." [1]

Sec. 274. **Function of by-laws — effect on third parties.**—The proper function of by-laws is to regulate the management and control of corporate affairs and especially to regulate the conduct and define the duties of the members toward the corporation and between themselves. "So far as its provisions are in the nature of a contract, the parties thereto are the members of the association as between themselves, or the corporation on the one side and its individual members upon the other." [2] They are not designed to confer rights or privileges upon third parties, or strangers to the corporation, but to protect rights and secure privileges to the corporators.

Thus, where a by-law provided as follows: "The members of this association pledge themselves in their individual as well as their collective capacity to be responsible for all moneys loaned to this association, and for the payment of which the treasurer may have given his obligation agreeably to the direction of the directors," and a note was duly executed by the treasurer for the association on which payments had been made, but for the balance, the association having failed to pay it, suit was brought against the defendant as a member of the corporation, demand having first been made of him, the supreme court of Massachusetts, Wells, J., observing: "The note upon which this action is based is the contract of the corporation. The defendant is not a party to that contract, and the plaintiff does not seek by this suit to charge him upon any statute liability as a stockholder. Responsibility for the amount of the note is sought to be established through a by-law of the corporation to which the defendant had attached his signature. To become a member of the association it was requisite to subscribe the by-laws. It does not appear that the defend-

[1] East Hartford v. Hartford Bridge Co., 10 How. (U. S.) 535; Debolt v. Ins. and Trust Co., 1 Ohio St. 564; Plank-road Co. v. Husted, 3 id. 578; Matheny v. Golden, 5 id. 375; Mott v. Pennsylvania, etc., R. Co., 30 Penn. St. 9; Sedg. on Const. and Stat. Law, 616.

[2] Flint v. Pierce, 99 Mass. 68; Mellen v. Whipple, 1 Gray, 317; Field v. Crawford, 6 id. 116; Dow v. Clark, 7 id. 198. See, also, Trustees of Free Schools, etc., v. Flint, 13 Metc. 543.

ant's signature was attached for any other purpose than to constitute him a member of the corporation. It does not appear that the plaintiff lent his money [for which the note was given] upon the faith or credit of the individual pledge contained in the by-law; nor that the by-law was in any manner made known to him or to the public as the basis of such credit. * * * The right of any third party, stranger to the association, to establish a legal claim through such a by-law, must depend upon the general principles applicable to express contracts. * * * No action can be maintained by such third party, unless he can bring his case within some of the recognized exceptions to that general rule. A pledge like the one in question, if made for the purpose of enabling the corporation to obtain a loan upon the faith of it and used for that purpose, may perhaps give a right of action against the subscribers in favor of a party who has been induced to advance money upon its credit." [1]

SEC. 275. **By-laws regulating the transfer of stock.**—The most important matters which by-laws may regulate are those relating to the transfer of stock and securing to the corporation a lien on the same for any indebtedness of the holder to the corporation. For instance, it is sometimes provided by the by-laws of the corporation that no transfer of stock shall be made unless it is registered upon the proper books of the company, kept for that purpose. In such a case can the holder transfer or assign his stock without a compliance with the provisions of the by-laws? Or can he still transfer the interest in stock held by him, subject to the equitable claims and liens of the corporation?

On these questions there have been a variety of decisions. "A very literal construction has been given in Connecticut to such clauses, either in the charter or by-laws of a corporation; the scope and object of such provisions being, in the view of the supreme court of that state, 'to render the purchase of stock secure to any person, if at the moment of his purchase the company books did not furnish evidence that it had been previously transferred.' The settled law of Connecticut is, that where such clauses are found in the charter and by-laws, or either, the transfer

[1] Flint v. Pierce, 99 Mass. 68.

is invalid and of no effect for any purpose, unless made or registered on the books of the company. The registry is there deemed the original act in the change of title, and an entry by the clerk on the deed, 'received for record,' is not considered equivalent to a registry."[1]

Sec. 276. This, however, is not the general doctrine on this subject; the rule recognized being that such regulations are primarily if not solely for the protection of the interests of the corporation; that it is important if not necessary for the corporation to know who are the stockholders and members, not only to enable them to determine to whom dividends are to be paid, but also to determine who are entitled to vote upon stock; that this provision is necessary to enable the corporation to avail itself of a lien upon the stock held, without prejudice to purchasers and assignees; but that as between the holder and the assignee an assignment passes all the rights of the holder, at least his equitable interest, subject to the rights of the corporation, and that such a provision has application only to the relations between the stockholder and the corporation.[2]

Sec. 277. **Providing for a corporate lien on stock.** — The right of lien of the corporation on shares owned by parties is held to be conferred only by virtue of some provision of the statutes or by-laws, and not by common law.[3] A provision, however, is sometimes contained in the statute of incorporation or other constating instruments, but more frequently in the by-laws, to the effect that no stockholder indebted to the corporation shall be authorized to make a transfer or receive a dividend, until all indebtedness to the corporation is discharged. And in case of such a provision it has

[1] Northrop v. Newtown T. Co., 3 Conn. 544; Marlborough Man. Co. v. Smith, 2 id. 579; Northrop v. Curtis, 5 id. 246; Oxford v. Bunnell, 6 id. 552. But see Colt v. Ives, 31 id. 25.

[2] Farmers' Bank v. Iglehart, 6 Gill. 50; Stebbins v. Phenix Ins. Co., 3 Paige, 350; Union Bank v. Laird, 2 Wheat. 390; Black v. Zacharie, 3 How. 513; Quiner v. Marblehead Ins. Co., 10 Mass. 476; Grant v. Mechanics' Bank, 15 S. & R. 143; Chouteau Spring Co. v. Harris, 20 Mo. 382; Fisher v. Essex Bank, 5 Gray, 373; Sargent v. Franklin Ins. Co., 8 Pick. 90; Nesmith v. Washington Bank, 6 id. 324.

[3] Union Bank v. Laird, 2 Wheat. 390; Rogers v. Huntington Bank, 13 S. & R. 77; Grant v. Mechanics' Bank, 15 id. 140; Sewall v. Lancaster Bank, 17 id. 285; Utica Bank v. Smalley, 2 Cow. 770; Steamship Dock Co. v. Heron, 52 Penn. St. 280.

been held to embrace not only an amount due for the original subscription, but also any debt due from the stockholder on notes discounted, where he is either principal or surety.[1]

SEC. 278. The lien thus created will also cover dividends as well as the shares of stock, although only shares may be designated.[2] But in New York, where a stockholder of a bank which had such a by-law sold his stock to a purchaser who had no notice of the by-law, and the bank gave the assignor credit before a transfer of the stock was made on its books, and before notice of his assignment, it was held that the purchaser had an equitable title to the stock free from any lien on the part of the bank.[3]

[1] Brent v. Bank of Washington, 10 Pet. 596; McDowell v. Bank of Washington, 1 Harr. (Del) 27; St. Louis Ins. Co. v. Goodfellow, 9 Mo. 149; Farmers' Bank v. Iglehart, 6 Gill. 50.

[2] Hague v. Dandeson, 2 Exch. 741.

[3] Bank of Attica v. Manufacturers' Bank, 20 N. Y. 501. Of the right of banking corporations under such provisions it has been observed "that it is not defeated or prevented from attaching by a transfer to a fictitious holder, and subsequently by a person represented by the indebted stockholder to be that holder to one who pays no consideration for it; nor does it yield to a claim of priority on the part of the general government. Such lien being intended solely as a protection to the bank for debts due to it, equity will not compel the bank to enforce it in favor of the sureties on such debts, on the ground that it was intended for the benefit of sureties, and giving precedence to debts prior in date, although upon general principles it might interpose at the suit of the sureties to prevent an abuse by the directors of the power conferred upon them by the clause giving the lien. And where the charter of a corporation, authorized to lend money, enacts that the stock shall be assignable on the books of the corporation under such regulations as the board of trustees shall establish, it is competent for the trustees to enact a by-law that 'no stockholder shall be permitted to transfer his stock while he is in default.' If a stockholder borrow money of a bank, with full knowledge of a usage not to permit a transfer of his stock while he is indebted to the bank, he is bound by such usage, and neither he nor his assignee, under a voluntary general assignment, can maintain an action against the bank for refusing to permit his stock to be transferred. A by-law of a bank giving to the institution a lien upon the shares of a stockholder, for debts due from him to the bank, is a reasonable and valid by-law, and under it a bank may defend against a suit brought by a stockholder for a refusal to permit him to transfer his stock on its books without first paying the debts he owes to it. Whether, however, a by-law of a corporation, merely as such, can create a general lien on the shares of a stockholder to the amount of the debts due from him to the bank, so as to affect the rights of creditors, or of a special assignee for value, without notice of the restriction, has been considered questionable. See, also, Stebbins v. Phenix Ins. Co., 3 Paige, 350; Brent v. Bank, etc., 10 Pet. 596; Cross v. Phenix Bank, 1 R. I. 39; Cunningham v. Alabama Ins. Co., 4 Ala. 652; St. Louis Ins. Co. v. Goodfellow, 9 Mo. 149; Morgan v. Bank of North America, 8 S. & R. 73; Nesmith v. Bank of Washington, 6 Pick. 329; Plymouth Bank v. Bank of Norfolk, 10 id. 454; Steamship Dock Co. v. Heron, 52 Penn. St. 280; Bank of Attica v. Manufacturers' Bank, 20 N. Y. 501.

Sec. 279. **Notice contained in the by-laws.** — It is a common doctrine that persons dealing with the agents and officers of a corporation are chargeable with notice not only of the authority conferred upon them but of the restrictions and limitations of the same contained in the by-laws, and that no authority to exercise powers can be inferred by virtue of an office where the authority of such officer is specifically provided for in the by-laws.[1] But there is a distinction made as to notice of the authority conferred by by-laws between the by-laws of the corporation, conferring or restricting such authority, and the by-laws of the directors.[2]

Sec. 280. **By-laws cannot enlarge or abridge the rights of stockholders.** — Although a corporation may, subject to the limitations we have noticed, make all needful and convenient regulations for the management of its internal affairs, it cannot, by resolutions or by-laws, abridge or enlarge the privileges conferred upon the corporation or the corporators by the incorporating statutes or instruments.[3]

[1] Adriance v. Roome, 52 Barb. 399; Wild v. Bank of Passamaquoddy, 3 Mason, 505; State v. Commercial Bank, 6 Sm. & M. 218; Risley v. Indianapolis, etc., R. Co., 1 Hun, 202; Mechanics' Bank v. New York, etc., R. Co., 13 N. Y. 599; Adriance v. Roome, 52 Barb. 599; Dabney v. Stevens, 40 How. Pr. 341; Lowell Savings Bank v. Winchester, 8 Allen, 109.

[2] See Samuel v. Holladay, Woolw. (C. C.) 400. See, also, chap. 7.

[3] Brewster v. Hartley, 37 Cal. 14. In this case the court, per Rhodes, J., say: "The power of electing the directors of a railroad corporation is [by the statutes of California] lodged in the hands of the stockholders. The exercise of this power having been regulated by the statute, the corporation cannot by its by-laws, resolutions or contracts either give or take it away."

CHAPTER XII.

LIABILITY OF CORPORATIONS FOR TORTS.

SEC. 281. General principles relating to the liability of, for torts.
SEC. 283. Corporations, when liable for torts.
SEC. 285. They may do wrongful acts, or direct them to be done.
SEC. 286. Frauds of corporations, or of their agents.
SEC. 288. Frauds of agents for which the corporation is liable.
SEC. 290. Particular acts of fraud by agents.
SEC. 291. Doctrine where the corporation is the occasion of the loss by the fraudulent act of a servant.
SEC. 292. Corporations enjoying the benefit of contracts secured by the frauds of agents will be responsible for such frauds.
SEC. 294. Right to repudiate a contract for fraud limited to the original parties.
SEC. 295. Ratification of a contract effected by the fraud of the agent.
SEC. 297. Corporate liability for other wrongs.
SEC. 298. Assault and battery ; when committed in the line of duty of the agent.
SEC. 300. Liability of corporations for trespasses to property.
SEC. 302. Liability of corporations in cases of the negligence of agents.
SEC. 303. Limitation of liability in case of negligence.
SEC. 307. Complications arising from successive negligence.
SEC. 311. Damages generally, in cases of torts.
SEC. 313. Exemplary damages.
SEC. 315. Application of the doctrine to private corporations.
SEC. 316. Extreme doctrine of liability for exemplary damages.
SEC. 317. Gross negligence, which authorizes exemplary damages.
SEC. 318. Inconsistency of the rule in its application to corporations.
SEC. 319. Recent examination of the doctrine of exemplary damages.
SEC. 322. Conflict growing out of the diverse rules.
SEC. 323. Damages for an injury resulting in death.
SEC. 324. Elements of damages in case of death ; what it is competent to show.

SEC. 281. **General principles relating to the liability of, for torts.** — When it is considered that a corporation is a mere ideal and immaterial person, it may appear unreasonable that it can be guilty of a wrong or tort; but when we reflect that it must always execute its will through agents, and that the principal is always responsible for the torts of agents, committed in the performance of the duties conferred upon them, it will be seen that, after all, a corporation should be liable for torts done and com-

mitted by agents while acting within the general scope of their authority.[1]

In an English case Lord Cottenham said: "Strictly speaking, a corporation cannot, itself, be guilty of fraud. But when a corporation is formed for the purpose of carrying on a trading or other speculation for profit, such as forming a railway, these objects can only be accomplished through the agency of individuals; and there can be no doubt that if the agents employed conduct themselves fraudulently, so that if they had been acting for private employers, the persons for whom they were acting would have been affected by their fraud, the same principles must prevail where the principal under whom the agent acts is a corporation." [2]

Sec. 282. The common law in relation to the liability of the principal for the tortious acts of the servant, generally, is equally applicable to the relation between a corporation and its servants and agents. In relation to this liability, it may be affirmed that the master or principal, as the case may be, is liable for any negligence, misfeasance, or omission of duty of the servant or agent, which occurs in the discharge of the duty, or that comes within the scope of the authority conferred upon him.[3] "And this liability," observes

[1] Phil. & Read. R. Co. v. Derby, 14 How. (U. S.) 468; Noyes v. Rut. & Burl. R. Co., 27 Vt. 110; Alabama & Ten. R. Co. v. Kidd, 29 Ala. 221; Yarborough v. The Bank of England, 16 East, 6; Reg. v. Birmingham & Glouc. R. Co., 3 Q. B. 223; Bloodgood v. M. & H. R. Co., 18 Wend. 9; Dater v. Troy & T. R. Co., 2 Hill, 629; Hale v. Union Mut. Fire. Ins. Co., 32 N. H. 295. Mr. Redfield observes: "As railways are, like other corporations, mere entities of the law, inappreciable to the senses, we do not see why this mere abstraction should not be regarded as always existing and present in the discharge of its functions. It is, indeed, a mere fiction, whether we regard the company as present or absent. And it seems more just and reasonable that this fiction should not be resorted to, to excuse just responsibility. It is certain we never require proof of any organic action of the corporation to constitute railway carriers of freight and passengers. All that is required to create the liability is the fact of their assuming such offices. So, too, for the most part, in regard to injuries to strangers and mere torts, it is not expected that proof will be given of any express authority to the servant or employee to do the particular act." 1 Redf. on Rail. 513. See, also, Lowell v. Boston & Low. R. Co., 23 Pick. 24.

[2] Ranger v. Great Western R. Co., 5 H. L. 72. See, also, Royal British B'k, *ex parte* Nicol, 28 L. J. Ch. 257; Green v. London General Omnibus Co., 7 C. B. (N. S.) 290; 29 L. J. C. P. 13; Brice's Ultra Vires, 240.

A corporation is liable for even the willful acts of the servants, if done in relation to their legitimate duties. 1 Redf on Rail. 508; Whiteman v. Wilmington & Susq. R. Co., 2 Harr. 514; Edwards v. Union B'k, 1 Fla. 136.

[3] Story on Agency, § 308; Paley on Agency by Lloyd, 396; Chitty on Com. and Man. 214; Story on Bailm., § 400.

Mr. Story, "is not limited to principals who are mere private persons, but extends also to private corporations, for the misfeasances, negligences and omission of duty of their agents, in the course of their employment, whenever they are duly appointed." [1] Upon the same principle that private persons are liable for the wrongful acts of their servants and agents, so are private corporations, and for the same reasons, liable under the same circumstances as private persons.[2]

SEC. 283. **Corporations, when liable for torts.** — The liability of corporations for the tortious acts of their agents and servants is the same in all cases as though they were natural persons; and they are liable in the same manner and to the same extent.[3] Neither is the liability in such cases affected by the fact that the acts done are not within the legitimate powers of the corporation, if the acts are such as come within the scope of the powers attempted to be conferred upon the agents.[4] The doctrine of *ultra vires*, it is claimed, has no application in such cases, for in executing such acts the corporation is liable for the direct or consequential injuries which others may sustain for every grade and description of willful, malicious, or negligent tort or wrong which it commits, however foreign to its nature or beyond its legitimate powers the wrongful transaction or act may be.[5]

[1] Id. See, also, Yarborough v. Bank of England, 16 East, 6; Smith v. Birmingham Gas Co., 1 Ad. & El. 526; Salem Bank v. Gloucester Bank, 17 Mass. 1; Foster v. Essex Bank, id. 479; Fowle v. Common Council, etc., 3 Pet. 398.

[2] Stevens v. Boston, etc., R. Co., 1 Gray, 277; Blackstock v. N. Y., etc., R. Co., 1 Bosw. 77; Albert v. Savings Bank, 1 Md. Ch. 407; Thatcher v. Bank, 5 Sandf. 121; Thompson v. Bell, 10 Exch. 10; 26 Eng. L. & Eq. 536; Bargate v. Shortridge, 5 H. L. C. 297; 31 Eng. L. & Eq. 44.

[3] Id. See, also, Merchants' Bank v. State Bank, 10 Wall. 604. See as to their liability for libel, Whitfield v. South Eastern R. Co., 1 E. B. & E. 115; S. C., 4 Jur. (N. S.) 688.

[4] Booth v. Farmers & Mechanics' Bank, 50 N. Y. 396, where the court say: "The liablity of the corporation for the consequences of acts of its officers, done within the scope of their general powers, is not affected by the fact that the act which the officer has assumed to do is one which the corporation itself could not rightfully do. A corporation may do wrong, through its agents, as well as a private individual."

[5] New York, etc., R. Co. v. Schuyler, 34 N. Y. 30; Philadelphia, etc., R. Co. v. Quigley, 21 How. 209; Life Ins. Co. v. Mechanics' Fire Ins. Co., 7 Wend. 31; Bissell v. Michigan, etc., R. Co., 22 N. Y. 258; Frankfort Bank v. Johnson, 24 Me. 490; Thayer v. Boston, 19 Pick. 511; Goodspeed v. East Haddam Bank, 22 Conn. 630.

A corporation may become responsible for the publication of a libel. Whitfield v. South Eastern R. Co., 1 E. B. & E. 115; 1 Redf. on Rail. 514.

Sec. 284. **Liability of principal for acts of agent.** — The general doctrine applicable to private corporations as well as to natural persons is thus stated by Mr. Story: "It is a general doctrine of law, that although the principal is not ordinarily liable (for he sometimes is) in a criminal suit,[1] for the acts or misdeeds of his agent, unless, indeed, he has authorized or co-operated in those acts or misdeeds; yet, he is held liable to third persons in a civil suit for the frauds, deceits, concealments, representations, torts, negligences and other malfeasances or misfeasances and omissions of duty of his agent, in the course of his employment, although the principal did not authorize, or justify, or participate in, or, indeed, know of such misconduct, or even if he forbade the acts, or disapproved of them.[2] In all such cases the rule applies, *respondeat superior;* for in no other way could there be any safety to third persons in their dealings, either directly with the principal, or indirectly with him through the instrumentality of agents.[3] In every such case the principal holds out his agent as competent and fit to be trusted, and thereby, in effect, he warrants his fidelity and good conduct in all matters within the scope of the agency." [4]

[1] Attorney-General v. Siddon, 1 Tyrwh. 41; Rex v. Gutch, 1 Mood. & Malk. 437; Paley on Agency, by Lloyd, 294–298; id. 305, 306; 3 Chitty on Com. and Man. 209, 210; Smith on Merc. Law, B. 1, chap. 5 § 3, p. 130 (3d ed., 1843).

[2] Chitty on Com. and Man. 208–210; Paley on Agency, by Lloyd, 294–296, 301-307; Smith on Merc. Law, 70, 71 (2d ed.); id. B. 1, chap. 5. § 3, pp. 127–130 (3d ed., 1843); Story on Ag., §§ 130, 217, 308–310; Doe v. Martin, 4 Term R. 66, per Lord Kenyon; Bush v. Steinman, 1 Bos. & Pull. 404; Attorney-General v. Siddon, 1 Tyrwh. 412; Story on Ag., §§ 311, 315–319; Milligan v. Wedge, 12 Ad. & El. 737, 742; Quarman v. Burnett, 6 Mees. & Wels. 499; Locke v. Stearns, 1 Metc. (Mass.) 560; Penn. Steam Nav. Co. v. Hungerford, 6 G. & J. 291.

[3] Story on Agency, § 308; 1 Bl. Com. 431, 432; Abbott on Shipp., part 2, chap. 2, § 11; Ellis v. Turner, 8 T. R. 533; Bush v. Steinman, 1 B. & P. 404; Laugher v. Pointer, 5 B. & C. 546; Randleson v. Murray, 8 Ad. & El. 109; Milligan v. Wedge, 12 id. 737; Quarman v. Burnett, 6 M. & W. 499; Rapson v. Cubitt, 9 id. 710; Winterbottom v. Wright, 10 id. 109.

[4] Story on Agency, § 452, citing Lane v. Cotton, 12 Mod. 490; Paley on Ag., by Lloyd, 294, 301-307; 4 Bac. Abr., tit. Master and Servant, K.; Story on Ag., §§ 11–13, 315 316, 319; Hern v. Nichols, 1 Salk. 289.

Mr. Justice Blackstone, in his Commentaries, gives a different reason, and says: "We may observe that in all the cases here put the master may be frequently a loser by the trust reposed in his servant, but never can be a gainer; he may frequently be answerable for his servant's misbehavior, but never can shelter himself from punishment, by laying the blame on his agent. The reason of this is still uniform and the same — that the wrong done by the servant is looked upon in law as the wrong of the master himself; and it is a standing maxim, that

SEC. 285. **They may do wrongful acts or direct them to be done.** — It is sometimes said that a corporation, being an invisible and artificial person, can execute directly no act, but for this purpose must employ agents. But, as we have seen, the directors at a lawful meeting may direct acts to be done, and they may be supposed to very closely represent, if they do not practically constitute, the corporate body itself. And if, at such a meeting, they should direct a wrongful or tortious act to be done, this would undoubtedly be considered the act of the corporate person, and would make the corporation liable, on the general principle that a party who directs an agent or any other person to commit a trespass, or do any other wrongful act, is responsible to the party who suffers damage thereby, the same as though the act was done by the party himself.[1]

SEC. 286. **Frauds of corporations or their agents.** — A common cause of liability of corporations is the frauds of their agents. These consist, like those of natural individuals, of actual and constructive frauds. Fraud in law has been defined as any trick or artifice employed by one person to induce another to fall into an error, or to detain him in it, so that he makes an agreement contrary to his interest. It may consist in misrepresentation or concealment of a material fact.[2]

Corporations are, like individuals, liable for frauds committed by their agents. An illustration of liability on the part of the corporation, by approval of fraudulent acts of agents, is found in the answer of Lord Chancellor WESTBURY to the question: "Under what circumstances can fraud be imputed to the corporation itself?" He says: "That if reports are made to the

no man shall be allowed to make any advantage of his own wrong." 1 Bl. Com. 432. Mr. Story comments as follows on the above quotation from Blackstone's Commentaries: "It seems to me that the reason here given is artificial and unsatisfactory, and assumes as its basis a fact which is the reverse of the truth in many cases; for the master is liable for the wrong and negligence of his servant, just as much, when it has been done contrary to his orders and against his intent, as he is, when he has co-operated in, or known the wrong." Story on Ag., § 452, note.

[1] Glasgow v. Drew, 2 Macq. 103; Kerr on Fraud (Am. ed.), 117; Sharp v. Mayor, etc., 40 Barb. 273; 40 N. Y. 454; Beach v. Fulton, 7 Cow. 485.

[2] Bouv. L. Dic.; Mansfield v. Watson, 2 Iowa, 111.

shareholders of a company by their directors, and these reports are afterward industriously circulated, misrepresentation contained in those reports must undoubtedly be taken, after their adoption, to be the representations and statements made with the authority of the company, and, therefore, binding upon the company." [1]

And in an English case it has been held that the acts of the directors were the acts of the corporation. Lord St. Leonards observed: "If representations are made by a company fraudulently, for the purpose of enhancing their stock, and they induce a third person to purchase stock these representations so made by them for that purpose do bind the company. I consider representations by the directors of a company as representations by the company, and although they may be representations made to the company, it is their own representation." [2]

[1] New Brunswick, etc., R. Co. v. Conybeare, 9 H. L. 725; Brice's Ultra Vires, 244.

[2] National Exchange Co. v. Drew, 2 Macq. 103. See, also, *Re* National Patent Steam Fuel Co., *Ex parte* Worth, 4 Drew. 529; 28 L. J. Ch. 590; Nicol's Case, 28 L. J. Ch. 257; Kerr on Fraud (Am. ed.), 117. Mr. Brice observes: "Frauds form the most important class of torts in connection with the liability of corporations, and they have given rise to many complicated and difficult questions. The requisites to support, at common law, an action for fraud are well known — first, defendant, *i. e.*, the party guilty of the fraud, which is the oftenest a misrepresentation, and must be as to a matter of fact, must have committed the fraud knowingly, recklessly, or with negligence. Taylor v. Ashton, 11 M. & W. 415.

Secondly. He must have intended some other to act upon it. Thom. v. Bigland, 8 Ex. 725.

Thirdly. The plaintiff must have relied upon the fraud *dolus dans locum contractui*, Attwood v. Small, 6 Cl. & F. 232, though it is sufficient if there was a fraudulent representation as to any part of that which induced him to enter into the contract. Kennedy v. Panama Royal Mail Company, L. R., 2 Q. B. 580.

Fourthly. The plaintiff must have sustained damage.

"These requisites should be carefully kept in mind when examining a case of fraud at common law whether it concerns a corporation or a private individual. But chancery proceeds upon somewhat different considerations, often holding that to be constructive fraud which would afford no ground for an action at law, and very frequently granting to a suitor some redress when he would be utterly remediless at law, as by ordering the wrong-doer to recoup the plaintiff, as far as he (the wrong-doer) has benefited by the wrong. In considering the question of fraud, it will be convenient to take first, frauds and misrepresentations which can be imputed to corporations, directly and immediately, and secondly, those which can be imputed to them only indirectly and by implication.

"Corporations are liable, like other individuals, for frauds committed directly by themselves or by their direction.

"Not a shadow of doubt now exists either at law or in chancery as to a corporation's liability, where the circumstances are such that the fraud can be imputed to the corporation itself. When will this be the case? The answer given by Lord Chancellor

SEC. 287. **Doctrine of ultra vires not applicable to torts.** — We have affirmed that the corporation, either by its direct action or

WESTBURY, 9 H. L. 725, is: 'That if reports are made to the shareholders of a company by their directors, and the reports are adopted by the shareholders at one of the appointed meetings of the company, and these reports are afterward industriously circulated, misrepresentation contained in those reports must, undoubtedly, be taken after their adoption, to be representations and statements made with the authority of the company, and, therefore, binding on the company.' Similarly in National Exchange Company of Glasgow v. Drew, 2 Macq. 103, Lord ST. LEONARDS said: 'I have certainly come to this conclusion, that if representations are made by a company fraudulently for the purpose of enhancing the value of their stock, and they induce a third person to purchase stock, these representations so made by them for that purpose do bind the company.'

"I consider representations by the directors of a company as representations by the company, and although they may be representations made to the company, it is their own representation. This was explained or rather restated in a subsequent case, National Patent Steam Fuel Company, *Ex parte* Worth, 4 Drew, 529, by KINDERSLEY, V. C., thus: 'It was laid down in the National Exchange Company v. Drew (I do not say that the point was actually decided, but the opinion of some of the most eminent judges of the present day was expressed) that where there is a body like this consisting of a great number of shareholders, and the directors make a report to the body at large in performance of their duty, then, if such report contain a representation of the affairs of the company which is false, and if that is made to a public and general meeting of the shareholders of the company, and is adopted by the company as the report of the directors to that general meeting, although there be no order to publish it, either by the directors or the body at large, yet, from the very nature of the case, it must be regarded as the representation of the company.'

"As illustrating the liability at common law may be mentioned Denton v. Great Northern Railway Company, 5 E. & B. 860. This was an action against the defendant for fraudulently publishing in their time-tables a train which had ceased to run, whereby the plaintiff who had, relying on the tables, left London for Peterborough with the intention of going on thence to Hull by the train which, on arriving at Peterborough, he learned had been discontinued, was put to expense, and it was unanimously held by the queen's bench that the defendants were liable for the expenses so incurred.

"These are such frauds as are committed by the agents of the corporation in the management and furtherance of its business. For these frauds it is now fully established at common law, that the corporation is liable, provided the agents guilty of the frauds kept within the limits of their authority. In Barwick v. English Joint-Stock Bank, L. R., 2 Ex. 259, the court of exchequer chamber, on a bill of exceptions, held the defendants responsible for the fraud of their manager. No objection was taken — in fact the point was not even raised by either the counsel or the bench — to the action itself, as being against a corporation. It was assumed throughout that a corporation, like any other principal, is liable for the acts of its agents So, in Kennedy v. Panama, etc., Mail Company, L. R., 2 Q. B. 580. which was an action brought on the ground of misrepresentation in a prospectus, issued by the directors to recover calls paid by plaintiff, the same liability was assumed as beyond all argument. Indeed the judgment of the court notices it only incidentally. These would not be legitimate consequences if there had been fraud in those acting for the company. Doubtless, in such a case, the company must bear all the consequences of the fraud of those they employ."

But the authorities and *dicta* in chancery are very conflicting, if not absolutely irreconcilable. On the one side it is urged that the agents of a corporation are its agents for carrying on its operations honestly and legally,

through its agents, may be liable for wrongs done, even where the acts constituting the wrong are *ultra vires*, the corporate authority.

and cease to be so when they act fraudulently and illegally. On the other side it is urged, with equal justice, that no distinction can be drawn between a principal, who is merely a legal entity, and an ordinary human being, and that as a corporation must act by agents, so like other principals, it ought, in common fairness, to be responsible for the frauds as well as the other acts of these.

In support of the former view we have the following:

North of England Joint-stock Banking Co., *Ex parte* Bernard, 5 De G. & Sm. 283; Dodgson Case, 385, per Parker, V. C.: "As to the argument that Mr. Bernard was induced to take these shares by incorrect representations, that point was taken in Dodgson's Case, and Knight Bruce, V. C., said that "whatever fraud there might be, if fraud there was, it was charged against the directors, who could not be the agents of the body of shareholders to commit a fraud. For the same reason the motion must be refused."

Re Athenæum Life Assurance Co., *Ex parte* Sheffield, 28 L. J. Ch. 325, per Paige-Wood, V. C.: "With regard to any fraud in misrepresenting what the deed itself was, I apprehend nothing can be made of that; of course the representation made by the secretary could have no effect at all if the deed were different from what it was represented to be; for, though companies have been held to be bound, in some cases, by the act of all the directors acting in the due execution of their powers, it has never yet been held that an officer of a company misrepresenting the effect of a deed, it being no part of his functions to explain or expound that deed, could release a shareholder."

Duranty's Case, 26 Beav. 268, 274, per Romilly, M. R.: "The directors are not the agents of the company to commit a fraud."

Re Hull and London Life Assurance Co., *Ex parte* Gibson, 2 De G. & J. 275, 283, where Lord Chelmsford, L. C., expressed himself thus: "There is no doubt that if a person has been drawn in by the misrepresentation of an individual member of the company, he cannot exonerate himself from liability by reason of such false representation. If he has any remedy, it is against the individual shareholder who has deceived him. With respect to misrepresentation by the company itself, or its agents, the case would be different; but there has always appeared to me to be great difficulty in establishing such a case. The company is represented by its directors who, for certain purposes, are its agents; but the difficulty is in saying that they are its agents for the purpose of making false representations."

In re Royal British Bank, Mixer's Case, 4 De G. & J. 575, 586, Lord Campbell, L. C.: "Clearly there was fraud and gross fraud on the part of the directors, and I have no doubt that he (*i. e.*, the appellant) was induced by fraud to take his shares. I think, however, that it was a fraud on the part of the directors, which cannot be imputed to the company."

The above cases, however, cannot be considered binding at the present time, at least, not to the full extent of the language employed. It would, indeed, have been strange if that could have continued to be deemed fraud in a court of law, which chancery refused to recognize as such, and if a party injured by the misrepresentations of the agents of a company would have been compelled to apply to law for the relief and redress which equity denied him then. Three recent decisions of the supreme court of appeal have partially removed this anomaly and have at length determined that a corporation cannot, in chancery any more than at common law, shield itself from liability for the frauds of those it employs, by the absurd fiction that not possessing real existence, mental or bodily, the mental element intention, requisite to constitute fraud, is wanting.

In the first of these decisions, New Brunswick Railway Land Co. v. Conybeare, 9 H. L. 725; L. J. Ch. 307, Lord Cranworth said: "If the directors, or the secretary acting for them, had fraudulently represented something to him (*i. e.*, the plaintiff) which was untrue, he then adhered to

In *Sharp* v. *Mayor, etc.*,[1] the court say: "The suggestion that a corporation cannot be liable for a fraud committed may be correct as to fraud not in any way connected with, or committed in the course of, and tending to carry out some power or act which it is authorized to perform. * * * The principal is liable for the false representations of the agent, made in and about the matter for which he was appointed agent, not on the ground of express authority given to the agent to make the statement, but on the ground that as to the particular matter for which the agent is appointed, he stands in the place of the principal, and whatever he does or says in and about the matter for which the agent is appointed is the act and declaration of the principal, for which the principal is just as liable as if he had personally done or made the declaration. The power of the agent to render the principal liable for representations flows from his mere appointment to do the act or transact the business, in and about which the representations are made. * * *

Where a corporation has power to do some act, and as incident to that act, to render itself liable for representations made in and about the doing of that act, it can appoint an agent to do that act, and from the mere fact of such appointment the same powers will flow to the agent as if he had been appointed by an individual, provided only, that the powers so flowing could have been exercised by the corporation itself." And in general principles, a person, who, by false and fraudulent representations and inducements held out to him by a corporation, has been deceived and misled into making a contract whereby he suffers loss, may

the opinion which he expressed on former cases, that the company would have been bound by that fraud."

In the Western Bank of Scotland v. Addie, L. R., 1 S. & D. 145, Lord CHELMSFORD laid down, that "Where a person has been drawn into a contract to purchase shares belonging to a company by fraudulent misrepresentations of the directors, and the directors, in the name of the company, seek to enforce that contract, or the person who has been deceived institutes a suit against the company, to rescind the contract on the ground of fraud, the misrepresentations are imputable to the company, and the purchaser cannot be held to his contract, because a company cannot retain any benefit which they have obtained through the fraud of their agents."

In Oakes v. Turquand, L. R., 2 H. L. 325, the same judge quoted this last extract, and adhered to it as being a correct exposition of the liability of a corporation for the fraud of its agents. Brice's Ultra Vires, 226 *et seq.*

[1] 40 Barb. 273; 40 N. Y. 454.

maintain an action against the corporation to rescind the contract.[1]

Sec. 288. **Frauds of agents for which the corporation is liable.**—It is affirmed as a general principle, that corporations are liable at common law for all damages sustained by others through the frauds and misrepresentations of their agents, which are perpetrated in the exercise of their employment, and within the scope of the authority conferred upon them. If the agents of the corporation, in the management of the business conferred upon it, are guilty of frauds, the corporation is liable for damages sustained by parties induced to deal with it in consequence thereof.[2]

[1] Henderson v. Railroad Co., 17 Tex. 560. See, also, Kennedy v. Panama, etc., Mail Co., L. R., 2 Q. B. 580.

[2] Barwick v. English Joint-stock Bank, L. R., 2 Ex. 259; Swift v. Winterbotham, P. O., L. R., 8 Q. B 244; Kennedy v. Panama, etc., Mail Co., L. R., 2 Q. B. 580, in which the court remarks: "These would not be legitimate consequences if there had been fraud in those acting for the company. Doubtless in such a case the company must bear all the consequences of the fraud of those they employ."

On this subject Mr. Brice says: "It must not here be forgotten that in determining whether a company can hold a shareholder to the contract into which by their own fraud they have induced him to enter, other equities have to be considered, and a totally different result will be arrived at than when we are examining whether that person will be liable to third parties, the creditors of the company, for its debts. Between the company and the person whom they have duped the subject is clear, if we put the question on the simple ground that no one can be allowed to retain that which he has acquired by fraud, but as regards third parties, such person is a *de facto* shareholder as long as he has not, from whatever cause, taken measures to denude himself of his shares, and it has been consequently decided that as such, as a member of the company, he is subject to the company liabilities. Oakes v. Turquand, L. R., 2 H. L. 325; Peek v. Gurney, L. R., 13 Eq. 79; Pawle's Case, L. R., 4 Ch. 497.

"Moreover, it is only the party originally defrauded, with perhaps exceptions arising in very special cases, who can repudiate the contract. For instance, a person who buys shares from one who could have repudiated these shares as having been issued to him under circumstances of fraud, cannot, on the ground of the original fraud, have such share canceled. Duranty, 26 Beav. 268; Grisewood Case, 4 De G. & J. 544. At common law an action of deceit may be brought at any time against a corporation as against a private individual, till the plaintiff's right is barred by the statute of limitations, but it is different when a shareholder seeks the relief of the court of chancery. A contract induced by fraud is voidable, not void, and the injured party will be deemed to have acquiesced unless he displayed ordinary precautions and care at the making of the contract, and has been prompt in appealing to the court on discovering the fraud. Deposit and General Life Assurance Company v. Ayscough, 6 E. & B. 761; Clark v. Dickson, 27 L. J., Q. B., 223; Scholey v. Central R. Co., L. R., 9 Eq. 266; Heymann v. European C. R. Co., L. R., 7 Eq. 154; 28 L. J. Ch. 257; *In re* Reese River S. M Co.; Smith v. Reese, L. R., 2 Eq. 264; Central R. Co. v. Kisch, L. R., 2 H. L. 99.

"We may thus summarize the authorities:

"I. At law:

"However the fraud be committed, if it can be imputed to the corporation, whether directly or indirectly, an action for fraud may be brought against

SEC. 289. **Fraud, etc., of directors** — If the constating instrument confers upon the board of directors all the powers of management and control of the corporate business, which would, without some special provision, vest in the corporate body, such board practically represents the corporation, and, as an agent of the corporation, its power is limited only by the powers conferred upon the corporate body. They are the managing officers and the only direct medium of communication between the corporation and other parties; and from their peculiar relations to the corporate body may, for all practical purposes, be treated as the body itself.[1] Hence, any fraud or material misrepresentations of the corporate business or the condition of the company, by them or by their authorized agents, by which third parties relying upon them sustain damage, would make the corporation liable for the loss sustained thereby, the same as though it were a private person.[2]

And a bank is liable for the fraud or mistakes of its clerks, cashiers or other officers, consisting of errors or false accounts in

the corporation for the damage thereby caused.

"II. In chancery:

"1. If the fraud be imputable to the corporation directly, that is, if it has been done or ratified by the shareholders in general meeting, then the corporation is liable for the consequences resulting therefrom.

"2. If it be imputable only indirectly, then the corporation can neither take advantage of the fraud nor retain, against the wish of the injured party, any benefits that may have accrued to it (the corporation) from such fraud. But the person aggrieved may, at his election, confirm or repudiate the transaction.

"3. It seems that the corporation cannot, by any proceedings in chancery, be rendered liable for damages resulting from fraud imputable to it indirectly.

"If the limitation last mentioned be correct, then it follows that in future corporations will not be liable at law for indirect fraud, since the supreme court of judicature act of 1873 expressly provides that where the rules of law and equity conflict, those of equity are to prevail. 36 and 37 Vict., chap. 66, § 26.

"This result — the holding corporation not liable for the frauds of their agents, will cause a considerable qualification of the law as at present existing of principal and agent, and it will be a strange exemplification of the unexpected effects produced by sweeping legislative enactments passed without a due consideration of the matters affected thereby."

Brice's Ultra Vires, 238 *et seq.*

[1] Perkins v. New York, etc., R. Co., 24 N. Y. 213; Lee v. Village of Sandy Hill, 40 id. 451.

[2] Brokaw v. New Jersey, etc., R. Co., 32 N. J. L. 331, where it was held that the corporation was liable for the frauds of the agent where he acted within the apparent scope of his authority. McClellan v. Scott, 9 Wis. 81, where it was held that the corporation was liable for misrepresentations of the agent as to the pecuniary condition of a railroad company.

Admissions and declarations of an agent of a corporation have the same effect and are useful as evidence in the same way against the corporation, as though made by natural persons. Henderson v. Railroad Co., 17 Tex. 560.

the books of the corporation, made by them, or for refusing to allow a person entitled thereto to subscribe for or transfer stock.[1]

Sec. 290. **Particular acts of fraud by agents.** — Among the most common acts of fraud perpetrated by agents are those which consist of misrepresentations in soliciting subscriptions to the stock of the company, not only verbally made, but by means of circulars and other papers, which are not only extravagant, but false. But in such cases, in order to entitle a party to recover damages sustained thereby, or to set aside the contract, it must be made to appear that the party seeking to take advantage of such fraud used due diligence in the matter, and relied upon such false and fraudulent misrepresentations in making the contract, and that the misrepresentations related to matters materially affecting the value and success of the enterprise in which the corporation was engaged. And a mere commendation of the company or of its objects, or an expression of opinion as to its success, or of the dividends it would earn, would not be sufficient, either to base an action for damages or to set aside the contract on the ground of fraud.[2] And if the subscriber has, for a long time, acquiesced in his contract with the corporation, or if, by his *laches*, he has induced the belief that his subscription is genuine, and especially if the rights of creditors, or other persons acting *bona fide*, are involved and must be prejudiced if the subscription is not sustained, the subscriber will not be relieved.[3] And, under similar

[1] Union Bank v. McDonough, 5 La 63; Ware v. Barataria Canal Co., 15 id. 169.

[2] See, on these propositions, Hughes v. Antietam Manuf. Co., 34 Md. 316; Vawter v. Ohio, etc., R. Co., 14 Ind., 174; Johnson v. Crawfordsville, etc., R. Co., 11 id. 280; Brownlee v. Ohio, etc., R. Co., 18 id. 68; Carey v. Cincinnati, etc., R. Co., 5 Iowa, 357; Waldo v. Chicago, etc., R. Co., 14 Wis. 575; Fogg v. Griffin, 2 Allen, 1; Litchfield Bank v. Peck, 29 Conn. 384; Kelsey v. Northern Light Oil Co., 54 Barb. 111; S. C., 45 N. Y. 505; Rives v. Montgomery, etc., R. Co., 30 Ala. 92; Henderson v. Railroad Co., 17 Tex. 560; Mississippi, etc., R. Co. v. Cross, 20 Ark. 443; Wight v. Shelby, etc., R. Co., 16 B. Monr. 5; Nugent v. Cincinnati, etc., R. Co., 2 Dis. (O.) 302; Oregon, etc., R. Co. v. Scoggin, 3 Oreg. 161. But it is not competent as evidence, to prove declarations made by the agent in his speeches and remarks in obtaining subscriptions, as to the location of the road, the subscription being unconditional. On the question of proper evidence, in such cases, see Buffalo, etc., R. Co. v. Dudley, 14 N. Y. 336; Thigpen v. Mississippi, etc., R. Co., 32 Miss. 347; Vicksburgh, etc., R. Co. v. McKean, 12 La. Ann. 638; Mississippi, etc., R. Co. v. Cross, 20 Ark. 443; Piscataqua Ferry Co. v. Jones, 39 N. H. 491; Connecticut, etc., R. Co. v. Bailey, 24 Vt. 477; Kennebec, etc., R. Co. v. Waters, 34 Me. 369.

[3] Blodgett v. Morrill, 20 Vt. 509; Ogilvie v. Knox Ins Co, 22 How. 380; Upton v. Hansbrough, 3 Biss. 417.

circumstances, a subscriber will not be relieved of his subscription on the ground of misrepresentations made by the agent, that he has authority to and will release the subscription, as it is unreasonable for the subscriber to presume that the agent has such authority.[1]

SEC. 291. **Doctrine, where the corporation is the occasion of a loss by the fraudulent act of a servant.**— The familiar maxim in equity, that where one of two innocent parties must suffer a loss by the acts of another person, he should bear the loss who has enabled such person to occasion it, is as applicable to corporations as to natural persons. Thus, in the application of this maxim, corporations have been held responsible for the fraudulent acts of their officers in over-issuing stock; and, for the acts of cashiers and tellers, in falsely certifying checks, etc., as such agents and officers are, by the corporation, held out to the community as the proper parties to perform these acts and to furnish information in reference to such matters.[2]

Where a paying teller of a bank, on which a check was drawn, certified the same to be good, although his authority to certify in that way was limited to cases where the bank had funds of the drawer in hand sufficient to cover the check, it was held that a *bona fide* holder for value of such check could enforce payment of the same against the bank, although the drawer did not have such funds; and that this liability existed, even though the certificate by the teller was in violation of his duty, and for the mere accommodation of the drawer, and made upon his promise that it should never be presented for payment.[3] In the case above referred to, SELDEN, J., in the New York court of appeals, observes: "The act of certifying a check is simply answering the supposed inquiry, of one about to take the check, whether the bank has funds of the drawer to meet it; and no other officer or

[1] Custer v. Titusville Gas, etc., Co., 63 Penn. St. 381; Litchfield Bank v. Peck, 29 Conn. 384; Railroad Co. v. Rodrigues, 10 Rich. (S. C.) 278.

[2] Lickbarrow v. Mason, 2 T. R. 63; Merchants' Bank v. State Bank, 10 Wall. 604; Girard Bank v. Bank, etc., 39 Penn. St. 92; Rounds v. Smith, 42 Ill 245; Bickford v. First National Bank, id. 238; Brown v. Leckie, 43 id. 497; Barnet v. Smith, 30 N. H. 256; Meads v. Merchants' Bank, 25 N. Y. 143; New York, etc., R. Co. v. Schuyler, 34 id. 30; Irving Bank v. Wetherald, 36 id. 335; Griswold v. Haven, 25 id. 596.

[3] Farmers and Mechanics' Bank v. Butchers and Drovers' Bank, 16 N. Y. 125; S. C., 28 id. 425.

agent of the bank would seem to be so competent to give an answer as the paying teller. He is charged with all he pays out, and if he pays a check without funds in hand, he is responsible to the bank for the amount. His knowledge exceeds that of the book-keeper, because to the information obtained from the latter he adds a knowledge whether any deposits have been made or checks paid since the last entry in the books. No doubt the cashier, by virtue of his general powers, and his presumed knowledge of the affairs of the bank, would be competent to answer the question; but he could only do so by first inquiring of the book-keeper and teller. Why should the applicant be compelled to seek the information through this circuitous channel, instead of going directly to the ultimate source of knowledge on that subject. The teller is put in the place of the cashier, to perform a portion of his duties. His appointment is virtually a division of the office of cashier; and that branch of the office which the teller fills embraces those duties which particularly require a knowledge of the state of the accounts of the depositors. Why then should he not be the organ of communication on that subject? * * * To certify a check when the bank has no funds to meet it, is to make a false representation; and neither the incidental power of the cashier, nor a general power conferred upon any other officer could be construed to authorize that. Hence, if a bank is holden, in any case, upon a certificate of its cashier that a check is good when it has no funds of the drawer, it is not because the cashier is deemed authorized to make such a certificate, but because the bank is bound by his representation, notwithstanding it is false and unauthorized."[1]

Sec. 292. **Corporations enjoying the benefits of contracts secured through the frauds of agents will be responsible for such frauds.** — It is a general principle, applicable alike to corporations as to private persons, that the principal cannot enjoy the benefit of a contract

[1] See, also, Butler v. Watkins, 13 Wall. (U. S.) 456; North River Bank v. Aymar, 3 Hill, 262; Hern v. Nichols, 1 Salk. 289; in which case the agent was authorized to sell a quantity of silk, and had made certain fraudulent representations, by which the purchaser was deceived, it was held that the principal was liable, Lord Holt observing: "Seeing somebody must be a loser by this deceit, it is more reasonable that he that employs and puts a confidence in a deceiver should be a loser rather than a stranger."

secured by the fraudulent representations or acts of its agents without at the same time incurring the responsibility of such frauds. They cannot ratify and enjoy the fruits of a contract and avoid responsibility for fraudulent representations which induced the making of the contract by the other party. On this subject Mr. Story observes: "Where the principal, upon a full knowledge of all the circumstances of the case, deliberately ratifies the acts, doings or omissions of his agent, he will be bound thereby as fully to all intents and purposes as if he had originally given him direct authority in the premises to the extent which such acts, doings or omissions reach."[1]

SEC. 293. **Rule in England.** — The same doctrine has been held by the English courts. Thus, in the case of *The Western Bank of Scotland* v. *Addie*,[2] Lord CHELMSFORD said: "Where a person has been drawn into a contract to purchase shares belonging to a company by the fraudulent representations of the directors, and the directors, in the name of the company, seek to enforce that contract, or the person who has been deceived institutes a suit against the company to rescind the contract on the ground of fraud, the misrepresentations are imputable to the company, and the purchaser cannot be held to his contract, because the company cannot retain any benefit which they have obtained through the fraud of their agents."[3] But it has been held that stockholders, who have been induced to become such by fraudulent statements in relation to the condition of the company, must take the earliest opportunity after a discovery of the fraud to repudiate the contract, and they cannot, as we have already noticed, unreasonably delay until the

[1] Story on Agency, § 239. The maxim of the common law is *omnis ratihabitio retrotrahitur, et mandato priori æquiparatur.* Concord Bank v. Gregg, 14 N. H. 331; Paley on Ag. by Lloyd, 324; Smith on Merc. L. 47; Odiorne v. Maxcy, 13 Mass. 178; Pratt v. Putnam, id. 361; Fisher v. Willard, id. 379; Boynton v. Turner, id. 391; Copeland v. Merchants' Ins. Co., 6 Pick. 198; Conn. v. Penn. 1 Pet. (C. C.) 496; Den v. Wright, id. 72; Breedlove v. Wamack, 2 Mart. (La. N. S.) 181; Buchanan v. Upshaw, 1 How. 56; S. C., 17 Pet. 70; Crump v. United States Mining Co., 7 Gratt. 352; Hartshorn v. Day, 19 How. 211; Dorr v. Munsell, 13 Johns. 430; Champion v. White, 5 Cow. 509; Hazard v. Day, 18 Pick. 95; Dobson v. Pearce, 12 N. Y. 156; Despard v. Walbridge, 15 id. 374; Weed v. Chase, 55 Barb, 534; Marsh v. Falker, 40 N. Y. 562; Craig v. Ward, 3 Keyes, 387; Lefler v. Field, 52 N. Y. 621; Dubois v. Hermance, 56 id. 673.

[2] L. R., 1 P. & D. 145.

[3] See, also, Oakes v. Turquand, L. R., 2 H. L. 325, 334; Barry v. Croskey, 2 J. & H. 1; Peck v. Gurney, L. R., 6 H. L. 377, 390.

rights of creditors have supervened, and then if the corporate enterprise proves unsuccessful and losses must be sustained, avoid the contract of subscription so as to prejudice the rights of creditors, who had a right to rely upon the subscriptions. As between the corporation itself and the subscribers where no interests of third persons are concerned, the right to repudiate a subscription obtained by the fraud of the company is clear, but it may be quite different as to the rights of third parties.[1]

[1] Oakes v. Turquand, L. R., 2 H. L. 325; Peck v. Gurney, L. R., 13 Eq. 79; Upton v. Hansbrough, 3 Biss. 417; Gloucester Bank v. Salem Bank, 17 Mass. 33; Kelsey v. Northern Light Oil Co., 45 N. Y. 505; *Ex parte* Booker, 18 Ark. 338; Merchants' Bank v. State Bank, 10 Wall. 604; Butler v. Walkins, 13 id. 456; Deposit, etc., Assurance Co. v. Ayscough, 6 E. & B. 761; 26 L. J. Q. B. 29; Clarke v. Dickson, 27 id. 223; Scholey v. Central, etc., R. Co., L. R., 9 Eq. 266; Heymann v. European, etc., R. Co., L. R., 7 Eq. 154.

On this subject Mr. Brice observes: "In Barwick v. The English Joint-stock Bank, L. R., 2 Ex. 259, the exchequer chamber held unanimously and in the most unqualified manner that an action for fraud lies against a corporation as against any private individual, whether the fraud be that of the principal directly or of the agents employed, provided only that the latter are acting within the ordinary scope of their occupation. But in Western Bank of Scotland v. Addie, L. R., 2 H. L. 325, the lord chancellor said: 'But if the person, who has been induced to purchase shares by the fraud of the directors, instead of seeking to set aside the contract, prefers to bring an action for damages for the deceit, such an action cannot be maintained against the company, but only against the directors personally.' To the same effect was the decision of Lord Cranworth, L. R., 1 S. & D. 167; 1 J. & H. 1; Peek v. Gurney, L. R., 6 H. L. 370. An attentive consideration of the case has convinced me that the true principle is, that these corporate bodies, through whose agents so large a portion of the business of the country is now carried on, may be made responsible for the frauds of those agents to the extent to which the companies have profited from these frauds, but they cannot be sued as wrong-doers, by imputing to them the misconduct of those whom they have employed. A person defrauded by directors, where the subsequent acts and dealings of the parties have been such as to leave him no remedy but an action for the fraud, must seek his remedy against the directors personally.'

"Most of the cases, however, which have come before courts of equity, have arisen from the attempts of persons who, induced by flowery prospectuses and glowing reports, have taken shares, to get themselves relieved from their responsibilities upon the statements put forth, and relied on by them turning out incorrect. In all such cases, if the fraud be imputable to the corporation and the injured party has not debarred himself by *laches*, relief will be granted.

"Conybeare v. New Brunswick, etc., Land Company, 9 H. L. 711; 31 L. J. Ch. 297, 1 Dr. & M. 363; L. R., 3 Ch. 682, is a leading authority. Here the house of lords, reversing the decision of the lords justices, decided that the plaintiff was not entitled to have his name removed from the list of shareholders, on the grounds, first, that there had not been any concealment, inasmuch as an act of parliament, the absence of which, from a certain report published by the company, was the concealment alleged, was recited on the articles of association, which he (plaintiff) must be held to have perused, and, secondly, that the misrepersentation complained of, thus stated in the bill: 'The said report of July, 1858, referred to the lands

The doctrine universally recognized in such cases is that the contract is voidable only, and hence the party entitled to avoid it must be prompt in the exercise of his right in this respect; and he cannot, by his delay, induce innocent third parties to suppose the contract a binding one, and entice them into contracts on the strength of such subscriptions, and afterward take advantage of it to the prejudice of creditors or other third parties.

of the said company in terms calculated to convey to the mind an impression that such lands were the absolute and indefeasible property of the company,' was not a representation but an inference that was left to be drawn from the expressions used in the report. Their lordships, however, threw in doubt the liability of a corporation for frauds which can be imputed to itself directly. The general tenor of their judgments is well expressed in the foot note on the House of Lords Reports, viz.: 'If reports are made to the shareholders of a company by their directors, and the reports are adopted by the shareholders and afterward industriously circulated, representations contained in those reports must be taken to be representations made with the authority of the company, and, therefore, binding the company; and if those reports having been industriously circulated be clearly shown to have been the proximate and immediate cause of shares having been bought from the company, the company cannot be permitted to retain the benefit of the contract, and keep the purchase-money that has been paid. Representations made by the secretary to a person in a general conversation, without a view to any definite statement by that person that he wants to purchase shares, are not binding on the company.'

Another very recent case is that of Central Railway Company of Venezuela Limited v. Kisch, L. R., 2 H. L. 99. The defendant, the original plaintiff, filed a bill to have his name removed from the list of shareholders in the railway and to have the payments he had made on account of calls returned him. He had taken the shares on the faith of a prospectus which referred to a concession made by the Venezuelan government to the company for making a railway, and stated that the contractor had guaranteed a dividend of 2½ per cent on the paid-up capital, during the construction of the works, while, in fact, this guarantee was limited to £20,000, and that the contract had been entered into 'at a price considerably within the available capital,' when in reality — on account of the company having paid £50,000 for the concession, which payment was not mentioned in the prospectus, and which concealment the defendant alleged as a ground of complaint, it left but a margin of £30,000 out of £50,000. On these grounds of misrepresentation and concealment, and more especially of the latter, the house of lords granted the relief prayed. So, in many other cases, shareholders have been relieved of their shares on the ground that they were induced to take them by misrepresentation, the false statements being on one occasion with respect to the capital subscribed or shares taken; Ross v. Estates Investment Company, L. R., 3 Ch. 682; L. R., 5 Eq. 249; upon another, as to the nature of the business to be undertaken; Blackburn's Case, 3 Drew. 409; or as to the value; Reese River Mining Co. v Smith, L. R., 4 H. L. 64; Denton v. Macneil, L. R., 2 Eq. 352; or locality, Lawrence Case, L. R., 2 Ch. 412; L. R., 1 Ch. 575, of property already or to be thereafter acquired by the company. In a word, misleading facts of any description, material to the contract to take shares, and actually the inducement to such contract, render such contract voidable on the part of the person so induced to enter into the same, always providing that the misleading facts in question were promulgated by the company itself or its duly authorized agents. Frowd case, 30 L. J. Ch. 322; Burnes v. Penne, 2 H. L. 497." Green's Brice's Ultra Vires, 255–8.

Sec. 294. **Right to repudiate a contract for fraud limited to original parties.** — The right to repudiate a contract for stock on the ground of fraud is limited to the party contracting for the same with the company. But if such holder of stock, even where the subscription has been obtained by fraud of the corporation, and where for such fraud the subscriber might have the contract set aside, still, if he transfers such stock to another, the purchaser cannot, as such stockholder, set aside the original contract on the ground of the fraud.[1]

But it may be observed that a right of action, even for a tort, may now, under the provision of the statutes of many, if not most of the states, be assigned so as to entitle the assignee to maintain an action in his own name for the damages sustained by the assignor thereby.

Sec. 295. **Ratification of the contract effected by the fraud of the agent.** — We have had occasion to notice the effect of the ratification of contracts made by agents in the name of the corporation, where they exceed the authority conferred upon them;[2] and the same general principles are applicable, not only where the ratification is of unauthorized contracts, but also of unauthorized torts. "In all cases," observes Mr. Story, "if the principal subsequently ratifies the act he is bound by it, whether it be for his detriment or for his advantage; and whether it be founded upon tort or upon a contract. And a ratification once deliberately made, with full knowledge of all the material circumstances, cannot be recalled."[3] But in case of ratification, as before observed,[4] it cannot be of a part of the unauthorized or tortious act. If the principal adopts it he must adopt the whole or none. And if he ratifies at all, it operates as a ratification of the whole. But this rule, in reference to torts in particular, must be received with the qualification that the ratification is made with a full knowledge of the facts and all

[1] Duranty's Case, 26 Beav. 268; Griswold's Case, 4 De G. & J. 544; Peck v. Gurney, L. R., 13 Eq. 79; Cross v. Sackett, 2 Bosw. 617.

[2] Story on Agency, § 242. See, also, Lucena v. Crawford, 5 B. & P. 269; Routh v. Thompson, 13 East, 274; Paley on Ag., by Lloyd, 112–115, 171, 172, 324, and note; Wilson v. Poulter, 2 Str. 859; Taylor v. Plumer, 3 M. & S. 562; 1 Liv. on Ag. 44–52; Rogers v. Kneeland, 10 Wend. 218; Lench v. Lench, 10 Ves. 517; Kelley v. Munson, 7 Mass. 319.

[3] Story on Agency, § 250 and notes.

[4] See Story on Agency, § 253 *et seq.*

the material circumstances relating to it; in which case it becomes, *eo instanti*, obligatory upon the principal, and cannot afterward be revoked.

SEC. 296. **Ratification of torts.** — In cases of contracts secured by the fraud of corporate agents if, after knowledge of the fraud, the corporation still insists upon the benefit of the contract thus secured, it is evident that it would be liable not only for damages thereby sustained, but that the other party might have the contract set aside and canceled, for that reason. We have already considered, in treating of agents, the acts and circumstances which would be evidence of ratification.[1] And we have also considered the personal liability of corporate agents in cases where they exceed their authority in making contracts, and also in cases of torts not only to the corporation but to parties injured thereby.

SEC. 297. **Corporate liability for other wrongs.** — Having considered the liability of corporations for the frauds of itself and its agents, we will now proceed to consider its liability for other torts. In this respect it may be affirmed that a corporation may be liable in all cases for torts committed, by its direction or approval, the same as a natural person. It will be liable for the tortious acts of its servants or agents committed while engaged in the course of his duties and within the scope of the authority conferred upon them, either express or implied, and whether such acts come within the designation of forcible, negligent, malicious or fraudulent torts.[2] Much doubt has been experienced by the courts whether a corporation could be made liable for a tort committed

[1] See Story on Agency, § 253 *et seq.*

[2] State v. Morris, etc., R. Co., 3 Zabr. 367; Brokaw v. New Jersey, etc., R. Co., 32 N. J. L. 328; Albert v. Savings Bank, 1 Md. Ch. 407; Thatcher v. Bank, 5 Sandf. 121; Thompson v. Bell, 10 Exch. 10; Bargate v. Shortridge, 5 H. L. Cas. 297; National Exchange Co. v. Drew, 32 Eng. L. & Eq. 1; Stevens v. Boston R. Co., 1 Gray, 277; Blackstock v. New York, etc., R. Co., 1 Bosw. 77.

As to liability of municipal corporations for injuries resulting from a want of skill of its agents in constructing public works, see City of Dayton v. Pease, 4 Ohio (N. S.), 80.

On the subject of liability of a corporation for fraud, negligence or mistakes of agents, see Salem Bank v. Gloucester Bank, 17 Mass. 1; Gloucester Bank v. Salem Bank, id. 33; Manhattan Co. v. Lydig, 4 Johns. 377; Bank of Kentucky v. Schuylkill Bank, 1 Pars. Sel. Cas. 248; Ware v. Barataria Canal Co., 15 La. 168; Union Bank v. McDonough, 5 id. 63; Johnson v. South Western R. Bank, 3 Strobh. Eq. 263;

by its officers or agents in the line of their duty where the *gist* of the action is malice, and many conflicting decisions upon this question are to be found in the reports. But whatever may

Crump v. U. S. Min. Co., 7 Gratt. 352; Commercial Bank v. Union Bank, 11 N. Y. 203; Beers v. Housatonic R. Co., 19 Conn. 566; Bradley v. Boston R. Co., 2 Cush. 539; Baltimore R. Co. v. Woodruff, 4 Md. 242; Sharrod v. London R. Co., 4 Exch. 585; Gillenwater v. Madison R. Co., 5 Ind. 339; Marlatt v. Levee Steamboat Cotton Co., 10 La. 583; Memphis v. Lasser, 9 Humph. 757; Green v. London Gen. Omnibus Co., 7 C. B. (N. S.) 290.

What has been said with regard to fraud will apply with proper qualifications to other torts. Corporations are not created — it is no part of their business — to commit torts. Nevertheless courts of law have decided that they must be held liable for torts committed by their agents and servants acting within their authority upon the same principles and by precisely analogous reasoning as they have been made responsible for fraud. Thus, an action for trespass to the person, Seymour v. Greenwood, 7 H. & N. 355; 30 L. J. Ex. 327; Limpus v. London General Omnibus Company, 1 H. & C. 526; Goff v. Great Northern Ry. Co., 30 L. J. Q. B. 148, or the property, *e. g.*, trover, Tattan v. Great Western Railway Company, 29 L. J. Q. B. 184; Mears v. London and South Western Railway Company, 11 C. B. (N. S.) 850; 31 L. J. C. P. 220, will lie against a corporation as against an individual. The agent of a corporation must, of course, be acting within his authority and upon this point difficult questions arise as to the extent of the agent's authority and more especially of his implied authority. In Edwards v. London and North Western Railway Company, L. R., 5 C. P. 445, it was decided that a fireman porter in the service of a railway company who, in the absence of the station-master, is in charge of a station, has no implied authority to give in charge a person whom he suspects to be stealing the company's property, and consequently that if he gives in charge on such suspicion an innocent person, the company are not liable. In Allen v. London and South Western Railway Company, L. R., 6 Q. B. 65, a similar decision was come to with regard to the arrest, by direction of a ticket distributor, of an innocent person whom he had suspected wrongly of an attempt to rob the till. The jury found that the ticket distributor acted in defense of the company's property, but the court unanimously held, that he had no implied authority from the company to order the arrest, and that consequently the company were not liable for the same. In this case, as in the former, the court thought that the respective officials concerned had an implied authority to take such proceedings only as were imperatively demanded for the immediate protection of the property under their charge; and that the moment any attempt to injure or steal such property was abandoned, this implication ended any steps that they might then direct, not being called for, for such protection would be of their own motion and at their own peril. *Lex ita scripta.*

What a corporation cannot do its agent cannot do so as to bind it. From this it necessarily follows that there can be no authority to an agent, implied or otherwise, to take proceedings which would be *ultra vires* of the corporation; and that the corporation cannot in any way be made amenable for torts committed by one of their servants in the course of such proceedings. This is well shown by the case of Poulton v. London and South Western Railway Company, L. R., 2 Q. B. 534. The facts were these, the plaintiff, who had taken a horse to an agricultural show, by the defendant's railway, was entitled, under arrangements advertised by the defendants, to take the horse back free of charge on the production of a certificate. The plaintiff, accordingly, produced a certificate and the horse was put into a box without payment or booking, and the plaintiff having taken a ticket for himself, proceeded by the same train. At the end of the journey the station-master demanded payment for the horse, and the plaintiff refusing to

formerly have been the rule, it is now well settled that a corporation is liable in that class of actions as well as an individual[1] as

pay, was detained in custody by two policemen under the orders of the station-master, until it was ascertained by telegraph that all was right. An action having been brought by the plaintiff against the defendants for false imprisonment, it was held, that though a railway company has power to apprehend a person traveling on the railway without having paid his own fare, it can only detain the goods for non-payment of the carriage, that as the defendants themselves would have had no power to detain the plaintiff, on the assumption that he had wrongfully taken the horse by the train without paying, there could be no authority implied from them to the station-master to detain the plaintiff on this assumption, and that they were, therefore, not liable for this act of the station-master. This case decides only that no implied authority as to detention belonged to the station-master. Of course, he might have had express authority to act as he did, and though such authority would have been *ultra vires* of the company purporting to confer it, yet they would have been responsible for the result thereof. Herein consists a great distinction between tortious and contractual liability for acts *ultra vires*. It is no defense to legal proceedings in tort that the torts were *ultra vires*. If the torts have been done by the corporation, or by their direction, they are liable for the results, however much in excess of their powers such torts may be.

Other torts there are with respect to which the liability of a corporation may be fairly considered doubtful. Ordinarily it is sufficient to render a person responsible for a tort, whether committed by himself or his agent, if only there has been negligence, heedlessness or rashness. Sometimes, however, the mental ingredient becomes intention, actual or constructive. Can a corporation be made amenable for those torts, which require, on the part of the wrong-doer, knowledge or willfulness?

In Stiles v. Cardiff Steam Navigation Company, 4 N. R. 483; 33 L. J. Q. B. 310, it was determined that a corporation would be liable for knowingly keeping a mischievous animal. Mr. Justice SHEE asserted broadly in reference to the *scienter*, that "corporations are, in this respect, in no different position from private owners, and if it could be shown that the mischievous propensity of the dog was known to any person having control of the business or of the yard, or even the dog, or whose duty it would be to inform the company of what the dog had done, it might do, but the evidence fails on that point."

In Whitfield v. South Eastern Railway Company, 1 E. B. & E. 115; 27 L. J. Q. B. 229. See Lawless v. Anglo-Egyptian Cotton and Oil Company, L. R., 4 Q. B. 262, it was held that a corporation was liable for publishing a libel contained in a telegram which passed over their wires; and *e converso*, a corporation, though intangible and without personal incidents, may sue for libel upon it. Metropolitan Saloon Omnibus Company v. Hawkins, 4 H. & N. 87; 28 L. J. Ex. 201.

In respect of liability for torts it makes no difference whether the corporation is a trading one making profits out of its undertaking, or exists merely for public purposes. In the latter case, as in the former, it is equally under obligations to all persons with whom it may come into contact, and is bound so to carry on its affairs as to keep within its powers, and not to cause injury to others, failing this, it is liable for the damage resulting. Southampton and Itchin B. C. v. Local Board of Southampton, 8 E. & B. 801; 28 L. J. Q. B. 41; Ruck v. Williams, 3 H. & N. 308; Brownlow v. Metropolitan Board, 16 C. B. (N. S.) 546.

Under the same circumstances the various boards of commissioners, and

[1] N. O. R. R. Co. v. Bailey, 40 Miss. 295; Goodspeed v. East Haddam B'k, 22 Conn. 530; Wheless v. Second Nat. Bank, 1 Baxt. (U. S. C. C.) 469; 25 Am. Rep. 783; Philadelphia R. R. Co. v. Quigley, 21 How. (U. S.) 202; Copley v. Grover & Baker Sewing Machine Co., 2 Woods. (U. S. C. C.) 494; Vance v. Erie R. R. Co., 32 N. J. L. 334; First Nat. Bank of Carlisle v. Graham, 100 U. S. 699.

for bringing vexatious suits,[1] for malicious prosecution,[2] for fraudulent representations,[3] for a libel,[4] for vexatiously obstruct-

other similar bodies appointed to conduct and carry out public improvements, and deriving therefrom no personal advantage whatever, will, in their corporate or *quasi*-corporate capacity, unless expressly by statutory provision relieved, be responsible to the parties injured. See the cases cited above, and also the Mersey Docks Trustee v. Gibbs, L. R., 1 H. L. 93.

The liability of corporations has been extended to even some varieties of crimes. The notion of crime, as usually held, requires intent on the part of the criminal, but this is not the view taken by our law. Many acts, which, if productive of harm to a single person, are mere torts, become crimes when they result in damage to a large number of people, and all proceedings, which are invasions of the rights or privileges not of some individual specially, but of the public at large, or which are detrimental to the general well-being or to the interest of the state, similarly fall under the category of crimes. In such cases the intent is notional and constructive, rather than real; Reg. v. Stephens, L. R., 1 Q. B. 702; it suffices if the wrong-doer has caused, whether directly by his own proceedings or indirectly by those of his agents, the wrong in question. Manifestly a corporation can commit such wrongs, can have such an intent, and by consequence at least to such extent render itself amenable to the criminal law. Accordingly it has been decided that a corporation may be indicted for misdemeanors which are in reality public torts, *e. g.*, for disobedience to an order of justices requiring them to execute works pursuant to a statute, Reg. v. Birmingham and Gloucester Railway Company, 3 Q. B. 223; for malfeasance in cutting through and obstructing a public highway, Reg. v. Great North of England Railway Company, 9 Q. B. 315; Reg. v. Longton Gas Company, 2 E. & E. 651; Reg. v. United Kingdom Electric Telegraph Co., 2 B. & S. 647, *n.*; 3 F. & F. 73; for non-repair of a highway, and the like. Reg. v. Mayor, etc., of Manchester, 7 E. & B. 453; 26 L. J. Sc. 65.

The authorities have gone only so far as to render them liable criminally for a nonfeasance or misfeasance, where the mental element is negligence. Whether this can ever be extended to felonies or misdemeanors, the essence of which is malice, willfulness, or other such determinate fact, is very doubtful. Reg. v. Great North of England Railway Company, 9 Q. B. 315; King of the Two Sicilies v. Wilcox, 1 Sim. (N. S.) 334; 19 L. J. Ch. 488. Being mere abstractions, they cannot have actually the mental element therein involved, and to raise it by implication is directly opposed to every principle of criminal law.

[1] Goodspeed v. East Haddam Bank, *ante*.

[2] Williams v. Planters' Ins. Co., 57 Miss. 759; 34 Am. Rep. 494; Carter v. Howe Machine Co., 51 Md. 290; Fenton v. Sewing Machine Co., 9 Phila. 189; Iron Mountain B'k v. Mercantile B'k, 4 Mo. App. 505; Edwards v. Midland Railway Co., 6 Q. B. Div. 287. But *contra*, see Owlsey v. Montgomery, etc., R. R. Co., 57 Ala. 560. In Castro v. Howe Machine Co., *ante*, the court while holding that a corporation is liable for malicious prosecution by its agents, yet held that in order to charge them, either express authority for the act of its agent or its subsequent ratification must be shown, but the tenor of modern cases is against any such requirement where the act complained of comes within the scope of the agent's apparent authority. In Edwards v. Midland Railway Co., 43 L. T. (N. S.) 694, Fry, J., said: "The question which I have to decide is this, whether or no a railway com-

[3] National Exchange Co. v. Drew, 2 Macq. 103; New Brunswick, etc., Railway Co. v. Conybeare, 9 H. L. 711.

[4] McDermott v. The Evening Journal, 44 N. J. L. 488; 39 Am. Rep. 606; Philadelphia R. R. Co. v. Quigley, 21 How. (U. S.) 202.

ing one's trade,[1] for a nuisance,[2] for false imprisonment,[3] and generally *for any and all torts, whether malicious or otherwise*, which are committed by its agents or servants in the line of their

pany can be liable in an action for malicious prosecution? The malice which will support a cause of action need not be express. It may be implied from a wrongful act being done without just cause or excuse, and it is enough, therefore, if such malice can be attributed to a railway company. It is obvious that great evils would arise if, on the ground that a corporation can have no mind, and therefore can have no malice, a corporation were able to escape from that liability which if they were not incorporated they would have to bear. Now how do the authorities stand? They stand in this way. The question came before the court of exchequer in Stearns v. Midland Railway Co., 10 Exch. 352, and three judges expressed their opinion in that case. ALDERSON, B., went upon the proposition that in order to support the action it must be shown that the defendant was actuated by *animus* in his mind, and that a corporation has no mind. The two other learned judges, PLATT, B., and MARTIN, B., without expressly dissenting from that proposition, declined to enunciate it, and determined the case upon the ground that there was not sufficient evidence of authority to affect the defendants, the railway company. That case, therefore, so far as it bears upon the present investigation, is the authority only of the very eminent judge, ALDERSON, B. Now, has that case been followed? Mr. Powell says it has been followed by a case in Australia, in which the chief judge, differing from his two learned brethren, followed the decision of ALDERSON, B. Is that decision of ALDERSON, B., consistent with other authorities which bear upon the same question — I mean the question of malice in a corporation? Now, so far back, I find, as the great trial on *quo warranto* of Rex v. City of London, the point appears to have been considered. There it appears SAUNDERS, L. C. J., allowed a demurrer, according to the statement of the pleadings which I find in a note appended to Whitfield v. South-Eastern Railway Co. in 1 El. Bl. & Ell. 122, and which no doubt, therefore, is correct, and contemplated the proposition that a corporation aggregate could be charged with maliciously publishing a libel. No doubt it may be said that that decision is on some grounds not of the greatest weight, that is to say, it was a decision which is often considered to have been affected by political as well as by legal considerations. Still it was the decision of a very great and very eminent judge. Then, again, the question arose for decision in the case of Yarborough v. Bank of England, 16 East, 6, and there Lord ELLENBOROUGH referred to an earlier case, I think in 1871, of Argent v. Dean and Chapter of St. Paul's. There he says the action was 'for a false return to a *mandamus* respecting an election to a verger's place in that cathedral, and no objection was made that the action would not lie. Vidian's Entries, p. 1, is an action for a false return against the mayor and commonalty of the city of Canterbury, for a false return to a writ of *mandamus* to restore an alderman to his precedency of place, etc. It states the mayor and corporation as attached to the answer and the return as falsely and maliciously made. The instances of actions against corporations for false returns to writs of *mandamus*, which are so often directed to them, must be numberless, though I have not found many of them in the books of entries.' The question again came before the court for consideration in the case of Whitfield v. South-Eastern Ry. Co., 31 L. T. (O. S.) 113; 27 L. J. Q. B. 229; 1 Ell. Bl. & Ell. 122, where a count against a railway company as a corporation aggregate was held good on demurrer, and there Lord

[1] Green v. London Omnibus Co., 7 C. B. (N. S.) 290.

[2] First Baptist Church v. R. R. Co., 5 Barb. 79; Wood on Nuisances.

[3] Owlsey v. Montgomery, etc., R. R. Co., 57 Ala. 560.

duty and within the scope of their apparent authority, and the doctrine of *ultra vires* has no application in such cases.[1]

Campbell said: 'The demurrer to the declaration in this case can only be supported on the ground that the action will not lie without proof of express malice, as contradistinguished from legal malice. But if we yield to the authorities which say that in an action for defamation malice must be alleged (notwithstanding authorities to the contrary), this allegation may be proved by showing that the publication of a libel took place by order of the defendants, and was therefore wrongful, although the defendants had no ill-will to the plaintiffs, and did not mean to injure them. Therefore the ground on which it is contended that an action for a libel cannot possibly be maintained against a corporation aggregate fails. But considering that an action of tort or of trespass will lie against a corporation aggregate, and that an indictment may be preferred against a corporation aggregate both for commission and omission, to be followed up by fine, although not by imprisonment, there may be great difficulty in saying that under certain circumstances express malice may not be imputed to and proved against a corporation.' He held, therefore, that it clearly might be implied, and therefore in certain cases express malice might be proved. Then, again, in Green v. London General Omnibus Co., 1 L. T. (N. S.) 95; 7 C. B. (N. S.) 290, a similar question came before the court of common pleas. The marginal notes to this effect: 'A corporation aggregate may be liable to an action for intentional acts of misfeasance by its servants, provided they are sufficiently connected with the scope and object of its incorporation.' The allegation there was that the placing and driving of omnibuses in the manner complained of was done wrongfully, vexatiously and maliciously, and judgment was delivered by Erle, C. J. He said: 'This is an action against the defendants for wrongfully, vexatiously and maliciously interfering with the plaintiff's rights by causing their vehicles to be driven in such a manner as to obstruct and molest the plaintiff in the use of the highway. The declaration alleges various grievances of that general character. To this declaration there is a demurrer raising for our decision the question whether the action will lie. The ground of the demurrer is, that the declaration charges a willful and intentional wrong, and that the defendants, being a corporation, cannot be guilty of such a wrong, and therefore the action will not lie.' I pause to observe that to my mind it is equally absurd to suppose that a body corporate can do a thing willfully, which implies will, intentionally, which implies intention, or maliciously, which implies malice. They are all acts of the mind, and one is no more capable of being done by a corporation aggregate than the other; so if there is absurdity in the one case there is equal absurdity in all the others. The judgment proceeds: 'But the whole of the acts that are charged against the defendants are acts connected with driving vehicles, and the defendants are a company incorporated for the purpose of driving omnibuses and therefore the acts alleged to have been done by them are all acts which are within the scope and object of their formation. Unless the acts charged were wrongfully done the plaintiff of course would have no ground of complaint. We are clearly of opinion that the action lies, and there are abundan authorities to warrant that opinion. The whole course of the authorities, from the case of Yarborough v. Bank of England, 16 East, 6, down to Whitfield v. South-Eastern Railway Co., 1 Ell. Bl. & Ell. 115 (which is the case I just now referred to), which was in reality an action against the Electric Telegraph Company, shows that an action for a wrong will lie against a corporation where the thing that is complained of is a thing done within the scope of their incorporation, and is one which would constitute an actionable wrong if committed by an individual.

[1] First National Bank of Carlisle v. Graham, 100 U. S. 699; Whitfield v. Railway Co., 1 E. B. & E. 115.

SEC. 298. **Assault and battery when committed in the line of duty of the agent.** — We have affirmed the proposition generally, that the principal is responsible for all positive misconduct, or for any neglect or omission of agents done or committed while acting within the scope of the authority conferred upon them. But it is sometimes a matter of difficulty to determine the extent of the agent's authority, and whether, in the particular act claimed to be tortious, the agent was acting within the scope of his authority. For instance, while thus acting, the agent may commit an assault and battery. If the agent should, for the time being, leave the business of his agency, and willfully and maliciously commit an assault and battery, the principal evidently would not be liable.[1]

But if, in the performance of and within the scope of his supposed duty, he inflicts an unwarranted injury upon another, the principal would undoubtedly be liable therefor. Thus, if a brakeman or other agent of a railroad company should leave his employment, and without any connection with his duties as such should commit an assault and battery upon another, it is evident that the railroad company would not be responsible for the dam-

The doctrine relied on by Mr. Giffard — that a corporation, having no soul, cannot be actuated by a malicious intention — is more quaint than substantial.' In other words, I understand the court of common pleas in that case to have disregarded as quaint and not substantial the *ratio decidendi* of ALDERSON, B., in the case of Stevens v. Midland Railway Co., 10 Exch. 352. In my judgment, therefore, that dictum or decision of his has been overruled, or rather has not been followed by a court of co-ordinate jurisdiction. Therefore I feel myself at liberty in that condition of the authorities, and as at liberty I think I am bound to decide according to what I conceive to be the true view of the law. That being so, it only remains to inquire whether or no this was done within the scope of the incorporation. Now those great railway corporations are bound to maintain, and in fact they do maintain, police for the purposes of restricting the commission of crime upon their railways, and the observations in the judgment of Lord BLACKBURN, then a member of the court of queen's bench, in the case of Goff v. Great Northern Railway Co., 3 L. T. (N. S.) 850; 30 L. J. Q. B., 148, show that in his view, at any rate, a company would be responsible for the arrest by their police of persons, supposing the arrest was wrongfully effected. Can it be said that if the police whom they employ conduct a prosecution in the performance of their duties as officers of the company, it is not done in the scope of incorporation of the company? The company take to themselves, as a necessary part of their business, the protection of property which is intrusted to them as common carriers and otherwise. In my view it is within the scope of their incorporation, and is not like a thing entirely outside the objects of their business. It is a thing which, taking into account the nature of their business, they could not reasonably do without, and do not do without. If so, it seems to me I am bound to hold that the company may be responsible for malicious prosecution."

[1] See Edwards v. London, etc., R. Co., L. R., 5 C. P. 445; L. R., 6 Q. B. 65; Owsley v. Montgomery R. Co., 37 Ala. (N. S.) 560.

ages sustained thereby; but, if such agent, while acting for such company, and within the line and apparent scope of his duty, should, though without authority of the company, unlawfully assault and beat a passenger, the company would be responsible for the damages sustained by such passenger.[1]

Sec. 299. **Distinction between torts and contracts as to application of doctrine of ultra vires.** — A distinction has been made as to the liability of the principal between acts that are tortious, if done in the execution of acts which are *ultra vires*, and mere contracts, in case they are *ultra vires*. In the former case, it has been held that corporations are liable if the act, though *ultra vires*, is done by its direction whereas in the latter it would not generally be liable.[2]

Sec. 300. **Liability of corporations for trespasses to property.** — The liability of a corporation for an injury to the real or personal property of another is the same as in case of a natural person. The only distinction between them being, not in the injury or liability itself, but in the fact that, as a corporation is merely an imaginary person, its trespasses must necessarily be committed through its agents, while a natural person may commit them not only by his agents, but by his own direct act. Wherever an injury may be done through the agent, and an action therefor sustained against an individual principal, under like circumstances an action will lie against a corporation.

Thus, a corporation may be liable in trover or for the conver-

[1] Philadelphia, etc., R. Co. v. Derby, 14 How. (U. S.) 468; Jackson v. Second Ave. R. Co., 47 N. Y. 274; Hamilton v. Third Ave. R. Co. 35 N. Y. Superior Ct. 118; S. C., 53 N. Y. 25; Moore v. Fitchburgh R. Co., 4 Gray, 465; Ramsden v. Boston, etc., R. Co., 104 Mass. 117; Coleman v New York, etc., R. Co., 106 id. 160; Crocker v. New London, etc., R. Co., 24 Conn. 249; Brokaw v. New Jersey, etc., R. Co., 32 N. J. L. 328; Philadelphia, etc., R. Co. v. Wilt, 4 Whart. 143; Pennsylvania, etc., R. Co. v. Vandiver, 42 Penn. St. 365; Chicago & N. W. R. Co. v. Williams, 55 Ill. 185; Kline v. Central, etc., R. Co., 39 Cal. 587; Evansville, etc., R. Co. v. Baum, 26 Ind. 70; Jeffersonville R. Co. v. Rogers, 38 id. 116.

As to injury resulting from negligence causing death, see Shearm. & Redf. on Neg., chap. 17, 27, 33. As to the measure of damages in such cases, see Field on Dam., chap. 21, § 626 *et seq.*

As to the general liability in cases of trespass to the person, see, also, the English cases, Seymour v. Greenwood, 7 H. & N. 355; 30 L. J. Ex. 327; Limpus v. London Gen. Omnibus Co., 1 H. & C. 526; 32 L. J. Ex. 34; Goff v. Northern R. Co., 30 L. J. Q. B. 148.

[2] First National Bank of Carlisle v. Graham, 100 N. S. 699; Sharp v. Mayor, 40 Barb. 273; 40 N. Y. 454; Beach v. Fulton Bank, 7 Cow. 485; Bank of U. S. v. Davis, 2 Hill, 451.

sion of personal property;[1] for trespass, in stopping water-courses; or for injury to property by the construction and use of canals; by blasting rocks; entering upon the premises of another and carrying away the soil, or cutting timber; for nuisance; for ejectment; and for negligence causing damage to person or property, and in all these cases corporations will be liable to damages for the injuries sustained, where the acts are committed by their agents, acting within the scope of their authority, the same as though the actions therefor were against individuals.[2] So an action may be maintained against a corporation for a libel;[3] and for false imprisonment;[4] for a nuisance, for which a corporation may also be indicted;[5] and also for a malicious prosecution.[6]

SEC. 301. **Rule in Vance v. Erie R. R. Co., as to implied malice.** — In a recent case against a railway corporation for a malicious prosecution the court say: "It must appear that the prosecution was instituted maliciously and without probable cause. In a legal sense, any act done willfully and to the injury of another, which is unlawful, is, as against that person, malicious, and it is not necessary that the perpetrator of such act should be influenced by ill-will toward the individual, or that he entertain or pursue any bad purpose or design. The proof of malice need not be direct. It may be inferred by the jury from the want of

[1] Tattan v. Great Western R. Co., 29 L. J. Q. B. 184; Mears v. London, etc., R. Co., 11 C. B. (N. S.) 850; 31 L. J. C. P. 220; Yarborough v. Bank of England, 16 East, 6; Duncan v. Surrey Canal Co., 3 Stark. 50; Smith v. Birmingham Canal Co., 1 A. & E. 526; Baltimore v. Norman, 4 Md. 352; Green's Brice's Ultra Vires, 262; Brown v. South Kennebec Ag. Soc., 47 Me. 275.

[2] Trespass will lie against a corporation. See Hay v. Cohoes Co., 2 N. Y. 159; Carman v. Steubenville R. Co., 4 Ohio St. 399; Barnard v. Stevens, 2 Aikins (Vt.), 429; Underwood v. Newport Lyceum, 5 B. Monr. 130; Humes v. Knoxville, 1 Humph. 403; Crawfordsville R. Co. v. Wright, 5 Ind. 252; Hazen v. Boston R. Co., 2 Gray, 574; Chicago R. Co. v. Fell, 22 Ill. 333; Same v. Whipple, id. 105; Illinois C. R. Co. v. Reedy, 17 id. 580; Edwards v. Union Bank, 1 Fla. 136; Whiteman v. Wilmington R. Co., 2 Harr. 514; Bloodgood v. Mohawk R. Co., 18 Wend. 9. See, also, Lyman v. Bridge Co., 2 Aik. (Vt.) 255; Watson v. Bennett, 12 Barb. 196; Lee v. Sandy-Hill, 40 N. Y. 442; Chestnut Hill Co. v. Rutter, 4 S. & R. 6; Delaware Canal Co. v. Commissioners, 60 Penn. St. 367; Whiteman v. Wilmington, etc., R. Co., 2 Harr. 514; Humes v. Knoxville, 1 Humph. 403; Terre Haute Gas Co. v. Teel, 20 Ind. 131.

[3] Philadelphia R. Co. v. Quigley, 21 How. (U. S.) 202; Whitfield v. South Eastern R. Co., E. B. & E. 115; Lawless v. Anglo-Egyptian Co., L. R., 4 Q. B. 262; Western Bank, etc., v. Addie, 1 H. L. Sc. 145.

[4] Goff v. Great Northern R. Co., 3 E. & E. 672.

[5] Delaware Canal Co. v. The Commonwealth, 60 Penn. St. 367.

[6] Vance v. Erie R. Co., 32 N. J. L. 334. See, also, Gillett v. Missouri, etc., R. Co., 55 Mo. 315.

probable cause, and involves nothing more than a wrongful act intentionally done. To hold a corporation amenable in this particular action is strictly in accordance with well-settled legal principles. The wrong for which the action is the appropriate remedy is susceptible of being committed by a corporation by means of its agents and servants. No technical difficulties are in the way of the institution of the suit, and, at the trial, the cause can be conducted upon the established rules of evidence. To afford redress against a corporation for other intentional wrongs done by them, and deny it in this case, is an anomaly which can only be justified because of the interposition of insurmountable obstacles. No such obstacles stand in the way of the prosecution or maintenance of the action." [1] The liability in such a case must come within the rule, that the corporation has directly authorized it, or the wrong must be done and performed within the scope of the authority conferred upon the agent, as we have already noticed or the corporation would not be liable.

Sec. 302. **Liability of corporations in case of the negligence of agents.** — Corporations, like natural persons, are liable for the negligence of their officers, agents and servants, while engaged in the business of the corporation, by which others sustain a loss. The general doctrine in reference to negligence is, "that for all injuries to a person, resulting from the negligence of another, and to which the party injured has not, by his own act or negligence, materially contributed, the injured party may recover all such damages as directly and naturally, or necessarily flow from the negligence." [2] Although the general doctrine is that the principal is not liable for the willful and malicious torts of his agents, still, corporations have frequently been made responsible, where it would

[1] Opinion of Depue, J., in Vance v. Erie R. Co., *supra*. See, also, Stevens v. Midland R. Co., 10 Exch. 352; Merrill v. Tariff Manuf. Co., 10 Conn. 384; Jeffersonville R. Co. v. Rogers, 28 Ind. 1.

[2] Field on Dam., § 660. See, also, Hill. on Torts, 115 *et seq.*; Shearm. & Redf. on Neg., § 594; Bridge v. Grand Junction R. Co., 3 M. & W. 244; Ellis v. London, etc., R. Co., 2 H. & N. 424; 26 L. J. Exch. 549; Thompson v. N. W. R. Co., 2 B. & S. 106; 3 L. J. Q. B. 67; 2 B. & S. 119. A negligence is the juridical cause of an injury, when it consists of such an act or omission on the part of a responsible human being [or a corporation], as in ordinary natural sequence immediately results in such injury. Such in fact we may regard as the meaning of the term 'proximate cause,' adopted by Lord Bacon, in his maxims." Whart. on Neg., § 73.

appear that the acts were willful and malicious, on the ground that the corporation has been negligent in selecting or continuing such agent, knowing his habits or incompetence, or in subsequently either directly or indirectly approving of, or indorsing his conduct, which is the basis for the damages claimed. If the corporation, by its acts, holds out an agent as competent and worthy of confidence, in the performance of the duties to which he is intrusted, and as fit to be trusted, it has been held that it thereby warrants his fidelity, competency, and good conduct, in all matters within the scope of his agency. And as a general rule it will not be permitted to set up, in defense of an action for negligence, the intentional violation of duty on the part of an agent to whom it has intrusted the performance of duties, if done within the scope of his general authority; and this rule might well rest upon the familiar equitable doctrine, that where one of two parties must suffer for a loss sustained, he should sustain the loss, who, by his conduct, has created a confidence which produced or resulted in an injury or loss.

SEC. 303. **Limitation of liability in case of negligence.** — There is a familiar maxim of the law that a party guilty of a negligence, by which loss is sustained, shall only be liable for the proximate consequences of his wrongful act, *causa proxima et non remota spectatur*. But this maxim affords an imperfect guide in determining the near or even remote consequences of a wrongful act, for which the wrong-doer should respond in damages. It is, perhaps, impossible to frame any rule of universal application in cases of negligence, to determine the question of liability on the ground of such negligence as the proximate cause.[1]

The question of liability for losses more or less remote has been illustrated as follows: "Suppose through the negligence of a railroad company the house of A. near a railroad, is set on fire without his fault, by sparks and cinders escaping from the locomotive used by the company, and is consumed, and that the adjoining buildings of B., C. and D. are thereby, and without their

[1] Field on Dam., §§ 10, 48 *et seq.*; 664 *et seq.*

fault, successively consumed, is the company liable to B., C. and D. respectively? On this question the authorities seem very conflicting. * * * Thus, it has been held, that where, through the defective condition of a locomotive of the defendant, a railroad company, a quantity of wood was ignited in one of its sheds, and the shed was consumed, and the fire therefrom set on fire and consumed the house of the plaintiff, about one hundred and thirty feet distant from the shed, the plaintiff could not recover of the company for the loss he had thereby sustained.[1] So, where a railroad company, through its negligence, set fire to the house of another, and the fire therefrom was communicated to the house of a third party, which was consumed with its contents, it was held that the railroad company was not liable for the loss of the last building or its contents thus destroyed.[2] * * *' On the other hand, in several recent and well-considered cases, it has been held that such losses may be recovered; that such damages are not too remote from the negligent cause; that the casual connection between the negligence and the losses of the respective parties is complete, and that the question of negligence of the company, and of the other parties, should be submitted to the jury under all the circumstances of the case. Thus, in Illinois, where it appeared that a locomotive, belonging to the defendant, in passing through a village with a train of cars, threw out great quantities of unusually large cinders, which set on fire a warehouse near the track, the heat and flames from which ignited a building of the plaintiff, which was situated about two hundred and fifty feet from the warehouse, and which was thereby destroyed; it was held that the company was not exonerated from liability merely because the plaintiff's house was not immediately ignited by cinders thrown from the locomotive, but by the burning of the warehouse; that it was not a conclusion of law, that the fire sent forth by the locomotive should be considered as the remote and not the proximate cause of injury to the plaintiff, but a question of fact to be determined by the jury under the instructions of the court.

And in a recent case, where the action was for damages caused

[1] Ryan v. New York Cent. R. Co., 35 N. Y. 210.

[2] Pennsylvania R. Co. v. Kerr, 62 Penn. St. 353.

by sparks emitted from the company's engine, kindled fires in two different places on lands not belonging to the plaintiff, and the two fires spread, and finally uniting passed over the lands of several other parties and finally reached the premises of the plaintiff, about four miles distant from the point where it first started, and there destroyed the property of the plaintiff; the court held that the loss was not too remote to allow a recovery.[1] And the same doctrine has been recently maintained in Wisconsin.[2]

SEC. 304. **Rule in Illinois as to proximate cause.** — The reason in support of the decisions on this question first above referred to are assailed by LAWRENCE, C. J., of the supreme court of Illinois, as follows: "It has been held by this and various other courts, that if fire is communicated to the dried grass of an adjoining field, through the carelessness of the persons managing a railway locomotive, and spreads over the field, no matter to what extent, destroying hay stacks, fences and houses, the company is liable. * * * But if these two decisions, in New York and Pennsylvania,[3] are correct law, it must be held that if fire is communicated from the locomotive to the field of A., and spreads through his field to the adjoining field of B., while A. must be reimbursed by the company, B. must set his loss down as due to a remote cause, and suffer in uncomplaining silence. Would there not be in such a decision a sense of palpable wrong, which would shock the public conscience and impair the confidence of the community in the administration of the law?"[4]

[1] Atchison T. & S. F. Co. v. Stanford, 12 Kans. 354; St. Jo. & D. C. R. Co. v. Chase, 11 id. 47.

[2] Kellogg v. Chicago & N. W. R. Co., 26 Wis. 223. See, also, Perley v. Eastern R. Co., 98 Mass. 415; Hart v. West. R. Co., 13 Metc. 99; Annapolis & E. R. Co. v. Gantt, 39 Md. 115; Kellogg v. Milwaukee & St. P. R. Co., Cent. L. J., vol. 1, 278; Opinions of MILLER and DILLON, JJ., U. S. C. C., Iowa, May T., 1874.

[3] Ryan v. The New York Cent. R. Co., 35 N. Y. 214; and The Pennsylvania R. Co. v. Kerr, 62 Penn. St. 353 (1869).

[4] Fent v. Toledo, P. & W. R. Co., 59 Ill. 349 (1871). See, also, Scott v. Shepherd, 2 Wm. Black. 892, the famous squib case; Illidge v. Goodwin, 24 E. C. L. 272; Lynch v. Nurdin, 41 id. 422; Rigby v. Hewitt, 5 Exch. 240; Greenland v. Chaplin, id. 243; Montoya v. London Ass. Co., 6 id. 451; Ins. Co. v. Tweed, 7 Wall. 44; Powell v. Deveny, 3 Cush. 300, Vandenburgh v. Truax, 4 Den. 464; Hart v. West. R. Co., 13 Metc. 99; Perley v. Eastern R. Co., 98 Mass. 414; Cleavelands v. Grand Trunk R. Co., 42 Vt. 449; Piggot v. Eastern, etc., R. Co., 54 E. C. L. 229; Smith v. The London & S. W. R. Co., L. R., 5 C. P. 98; Atchison T. & S. F. R. Co. v. Sanford, 12 Kans. 354 (1874).

In the last case, which was an action for damages, for the negligent setting of a fire, VALENTINE, J., in delivering the opinion of the supreme court of Kansas, observes: "After a careful

Sec. 305. **Reason for rule as to proximate cause.** — The reason for holding a negligent party for the continuous, direct and natural consequence of his wrongful act, though some of the losses sustained thereby may, in respect to the successive causes and effects, be remote from the first active producing cause, has frequently been recognized and seems to be based upon the soundest reasoning. It is true that the subject of causation and the tracing of causes to results is, many times, one of great difficulty. Every event is the result of certain causes, or combination of causes, more or less remote. And there may be great difficulty sometimes in tracing, or determining the legal cause of a loss sustained, or in fixing a just rule of liability in such cases. The law seems to permit the tracing back of the causes of an injury to the party who first set in motion the dangerous element which resulted in the damage.[1]

Sec. 306. **Same continued.** — According to the reasoning in some of the cases, a party whose building is ignited directly by cinders, or fire sent forth by the negligence of the agents of a railroad company, may recover therefor; but if the fire thus caused continues and burns another's buildings the company is not liable, on the ground that the latter loss is not the immediate or proximate result of the first active and producing cause. But suppose the building first

examination of this question, we are satisfied, both upon reason and authority, that the damage is not too remote to be recovered. We have already decided that where the fire has run thirty rods from the place where it was first kindled, and there does damage, the plaintiff may recover. St. Jo. & D. C. R. Co. v. Chase, 11 Kans. 47. Now, if the plaintiff may recover when the fire has run thirty rods, why may he not recover when the fire has run forty rods, or a mile, or four miles? Will it be claimed that the ownership of the property over which the fire runs can make any difference? * * * The first efficient and adequate cause, as well as every intermediate cause, necessarily followed from the first cause, is always held in law to be the proximate cause, unless some new causes, independent of the first cause, shall intervene between the first cause and the final injurious result. This is equally true where the successive events are separated by clearer and better defined outlines than they are in the burning of prairie grass or a stubble field. * * * Why should not every person, whether far away or near, recover for the wrongful acts of another? Even if it should bankrupt the wrong-doer, would that be any reason for not compensating an innocent sufferer? As a question of ethics and morals, as well as of law, where a great loss is to be sustained by somebody, who should bear it, the innocent or the guilty?"

[1] See opinion of Shaw, Ch. J., in Marble v. City of Worcester, 4 Gray, 365; Scott v. Shepherd, 3 Wils. 403; 2 Wm. Black. 892; Big. L. Cas., L. T., note, p. 608.

ignited by the carelessness of a railroad company or other person is one of a continuous row of houses owned by A., B., C. and D., and that the burning of the building of A. was through the direct act or negligence of such party, and that the destruction of the others by the burning of the first was unavoidable, would B., C. and D. be deprived of the right of recovery on the ground that their loss was not the direct or proximate result of the wrongful act of the railroad company or its agents? Or, suppose that one party owns fifty feet of a tenement, and another party owns another fifty feet of the same, would a destruction of the property of the former by the willful act or the negligence of a party, and the unavoidable destruction of the interests of the latter thereby, exempt the wrong-doer from liability for the latter's loss, when he in no manner contributed to the same and used due diligence to avoid the loss? We think, both upon the weight of authority and of reason, that it would not; and that the liability of the wrong-doer in such a case would be the same to the latter as the former, whether it was an act of willful intention or of mere negligence. He should sustain the loss, who has set in motion the dangerous element, or been the active cause of it.

SEC. 307 **Complications arising from successive negligence.** — Some of the most complicated questions arising from the successive negligence of different parties have been presented for adjudication. "Thus, suppose that through carelessness of a railroad company, in not using a proper *spark arrester*, sparks escape from its locomotive, which, falling on dry rubbish, carelessly left by another party scattered over his premises near the railroad, and, fanned by the wind, it takes fire, and fed by the rubbish it is driven by the wind to the buildings of another party, which are thereby consumed, which party is liable for the loss?" On this question Mr. Wharton says: "Supposing that had it not been for the intervention of a responsible third party, the defendant's negligence would have produced no damage to the plaintiff, is the defendant liable to the plaintiff? This question must be answered in the negative, for the general reason that causal connection between negligence and damage is broken by the interposition of independent responsible human action. I am negligent on a par-

ticular subject-matter. Another person, moving independently, comes in, and either negligently or maliciously so acts as to make my negligence injurious to a third person. If so, the person so intervening acts as a non-conductor, and insulates my negligence, so that I cannot be sued for the mischief which the person so intervening directly produces. He is the one who is liable to the person injured. I may be liable to him for my negligence in getting him into difficulty, but I am not liable to others for the negligence which he alone was the cause of making operative."[1]

The question here presented opens up to us the consideration of the vast problems of causation. The chain of causation, viewed in the light of philosophy and enlightened reason, is endless. All events are, when contemplated in this light, the results of a combination of many antecedent causes. In the language of Mr. Mill, "for every event there exists some combination of objects or events, some given combination of objects and events, some given concurrence of circumstances positive or negative, the occurrence of which will always be followed by that phenomenon. We may not have found out what this concurrence of circumstances may be, but we never doubt there is such a one, and that it never occurs without having the phenomenon in question as its effect or consequence. * * * It is seldom, if ever, between a consequent and one single antecedent that this invariable sequence subsists. It is usually between a consequent and the sum of several antecedents, the concurrence of all of them being requisite to produce, that is, to be certain of being followed by the consequent. In such a case it is very common to single out one only of the antecedents under the denomination of cause, calling the others merely conditions."[2]

Sec. 308. **Rule of little practical value.** — We may observe that the maxim *causa proxima et non remota spectatur*, which is frequently applied as a maxim to limit the liability of parties for injuries or losses sustained, is an imperfect rule, and under the decisions of the courts is practically disregarded in determining the limits of liability for a wrong done. We find the chain of causation by successive links endless, and the

[1] Whart. on Neg., § 134 *et seq.*

[2] 1 Mill's Logic (2d Lond. ed.), 398.

limitation of damages by the maxim to the proximate cause; but we also find the courts, disregarding the literal interpretation of the maxim, have extended the liability in numerous cases to more remote consequences of a wrong. Is there a distinction, as to approximate cause, between science and law? Is there practically any line of limitation in respect to the remoteness of the consequences of a wrong for which a wrong-doer is not liable? Or does this depend upon the motives of the wrong-doer, or the degree or character of the wrong?

Take the famous Squib case, already cited, where the defendant threw into the market place on fair day a squib, which different parties, which we may designate as A., B. and C., caught up, and to avoid injury to themselves, threw away, until it struck and destroyed the eye of the plaintiff. The whole movement of the squib was, by a fiction of the law, or in a legal sense, considered the act of the party who first threw it, although, but for the acts of the other parties, the loss could not have happened. Again, take the case of *Atchison, etc., R. Co.* v. *Stanford*,[1] where by the negligence of a railroad company sparks emitted from a locomotive of the railroad company set fire to grass, which spread over the premises of several parties, and finally caught and consumed the property of the plaintiff, and where the court held that the loss was not too remote, and that the railroad company was liable.[2]

SEC. 309. **Same continued.** — But a larger rule of liability has sometimes been recognized in case of the willful wrong-doing of another, than in case of mere negligence. Thus, if a party should willfully set fire to a building, he would undoubtedly be held to contemplate all the damages which legitimately followed therefrom, and be responsible for all damages that resulted to any party, however remote or extended the result from the original act.[3] And in view of this doctrine we have heretofore been led to affirm that the rule of extended liability in such cases depends upon the motives of the wrong-doer, or the degree of negligence manifested in the particular case;[4] that the subject is too subtle to allow any definite line

[1] 12 Kans. 354.

[2] See, also, Kellogg v. Chicago, etc., R. Co., 26 Wis. 223; Perley v. Eastern R. Co., 98 Mass. 415.

[3] Allison v. Chandler, 11 Mich. 542; Field on Dam., §§ 53, 78 Mayne on Dam. 25 *et seq.*

[4] Field on Dam., § 53.

of liability to be drawn,[1] and that "there is a tendency to recognize a rule on this subject of liability for the consequences of a wrong somewhat flexible and elastic, varying in cases of torts, as we shall have occasion to notice more fully hereafter, with the motives of the wrong-doer, and covering more or less extended and remote consequences depending on the character, grade or degree of the wrong done."[2] And it has also been stated in a legal proposition that, "in cases of officious interference with property, willful wrongs, frauds or gross negligence, the liability may extend to remote effects and losses, even those that are the result of a natural chain of effects, produced and caused by the original wrong."[3]

Sec. 310. In cases of the positive negligence of a party, where there is loss sustained, even though it immediately results from the passive negligence of an intervening party, it seems to me more consonant with principles of justice to hold the party responsible who set in motion the dangerous element, that, although affected by intervening causes, produced the result; that where, except for the negligence of an intervening party, the loss would not have occurred, still, if the negligence of such party would not have resulted in any loss, except for the positive and active negligence or willful act of another, who set in motion or was the active creator of causes, but for which the passive negligence of another would have resulted in no injury, but by which and through such negligence or willful act a loss finally results to another, the party negligently or willfully acting or originally setting in motion the cause of injury, should be held responsible for all the natural, probable and legitimate consequences of such wrongful act and especially in cases of willful and intentional wrong, for all the consequences thereof, however remote.[4]

Sec. 311. **Damages generally in cases of torts.** — We have stated that a corporation should be liable to damages for its torts the same as a natural person. The measure of damages would, of

[1] Field on Dam., § 32.
[2] Field on Dam., § 13.
[3] McDaniel v. Emanuel, 2 Rich. (S. C.) 455; Strawbridge v. Turner, 9 La. 213; Powell v. Salisbury, 2 Y. & J. 391; Saxton v. Bacon, 31 Vt. 540; West v. Forrest, 22 Mo. 344.
[4] Field on Dam., §§ 52, 53, 78; Mayne on Dam. 25 *et seq.*

course, be the same; but some illustrations of this subject may be beneficial although it more appropriately belongs to a treatise especially devoted to the law of damages.[1]

In case of injury to the person of another from the negligence of a railroad or other corporation, to which the plaintiff did not in any material manner contribute, the elements of damages may be summarized as follows:

1. Loss of services during the time the injured party is incapacitated.[2]

2. Expenses of medical, surgical and other attendance.[3]

3. Bodily pain and mental anguish.[4]

4. Permanent disability which the jury may take into consideration in estimating the present damages.[5]

5. Exemplary damages where such are allowable by the law of the locality where the trial is had and where the circumstances of the case authorize it.[6]

SEC. 312. **When injury is of permanent nature.** — In relation to permanent injury as an element of damages it may be observed that damages "although generally limited to the injury at or before the commencement of the suit, or to the time of trial, yet it frequently occurs that in determining the present injury matters of a prospective character must also be considered, and particularly where the injury is of a permanent character, damages for the future injury should be allowed. Thus, where the claim was for breaking a leg, it was held proper to show the probable future condition of the limb but not the

[1] Field on Damages, chap. 20; Sedg. on Dam. 99 *et seq.*

[2] Wade v. Leroy, 20 How. 34; Morse v. Auburn, etc., R. Co., 10 Barb. 621, Holyoke v. Grand Trunk R. Co., 48 N. H. 541.

[3] Peoria Bridge Association v. Loomis, 20 Ill. 235; Beardsley v. Swann, 4 McLean, 333, Ransom v. New York, etc., R. Co., 15 N. Y. 415; Moody v. Osgood, 50 Barb. 628.

[4] Ranson v. N. Y. & Erie R. Co., 15 N. Y. 415; Curtiss v. Rochester, etc., R. Co., 20 Barb. 282; Linsley v. Bushnell, 15 Conn. 225; West v. Forrest, 22 Mo. 344; McKinley v. The Chicago & N. W. R. Co., 44 Iowa, 314, where it was held, among other things, that mental anguish was a proper element of actual damages.

[5] Masters v. Warren, 27 Conn 293; Seger v. Barkhamstead, 22 id. 290; Wade v. Leroy, 20 How. 34; Curtis v. Rochester, etc., R. Co., 18 N. Y. 534.

[6] Winters v. Hannibal, etc., R. Co., 39 Mo. 468; Field on Dam., §§ 614, 667 *et seq.*, and notes; Mendelsohn v. Anaheim Lighter Co., 40 Cal. 657; Southern R. Co. v. Kendrick, 40 Miss. 374; Atlantic, etc., R. Co. v. Dunn, 19 Ohio St. 162; Goddard v. Grand T. R. Co., 57 Me. 202; Belknap v. Boston, etc., R. Co., 49 N. H. 358; Caldwell v. N. J. Steam B. Co., 47 N. Y. 282.

consequences of a hypothetical second fracture.[1] In such a case it is proper also to consider diminished capacity to work at the plaintiff's trade, arising from the injury." [2]

Sec. 313. **Exemplary damages.** — The application of the doctrine of exemplary damages to corporations has been attended with much difficulty. The reason for allowing them assigned by its advocates would hardly seem applicable to them, viz.: that of punishing the wrong-doer. For wrong implies at least a malicious intent, but how can it be said that an ideal and imaginary person can have a mind which cherishes malice, or an evil or wrongful intent. The general rule in reference to exemplary damages has been thus stated: "For torts, under circumstances of great aggravation, the jury, in addition to such actual damages as they may find the injured party entitled to, * * * may further allow for an example to others and a punishment of the wrong-doer, exemplary or punitive damages." [3] The damages

[1] Lincoln v. Saratoga R.Co.,23 Wend. 425. See, also, Johnson v. Perry, 2 Humph. 572; Curtiss v. Rochester, etc., R. Co., 20 Barb. 282.

[2] Donell v. Sandford, 11 La. Ann. 645. See, also, Filer v. The N. Y. Cent. R. Co., 49 N. Y. 42; Toledo, etc., R. Co. v. Baddeley, 54 Ill. 19; Frink v. Schroyer, 18 id. 416; Slater v. Rink, id. 527; Passenger R. Co. v. Donahue, 70 Penn. St. 119; Kansas Pac. R. Co. v. Pointer, 9 Kans. 620; City of Chicago v. Langlass, 52 Ill. 256; Fair v. Lond. & N. W. R. Co., 21 L. T. (N. S.) 326; Holyoke v. Railway Co., 48 N. H. 541; Weisenberg v. City of Appleton, 26 Wis. 56.

The same doctrine is held applicable to injuries sustained by the negligence of a municipal corporation. Peoria Bridge Assoc. v. Loomis, 20 Ill. 235; Hunt v. Hoyt, id. 544; Mason v. The Inhabitants of Ellsworth, 32 Me. 271; City of Ripon v. Bittel, 30 Wis. 614; Nebraska City v. Campbell, 2 Black. 590. See, also, Morse v. Auburn & S. R. Co., 10 Barb. 621; Rawson v. N. Y. & Erie R. Co., 15 N. Y. 415; Keyes v. Devlin, 3 E. D. S. 518; Bannon v. Baltimore & O. R. Co., 24 Md. 108; Seger v. Barkhamsted, 22 Conn. 290; Lawrence v. Housatonic R. Co., 29 id. 390; Fairchilds v. Cal. Stage Co., 13 Cal. 599; Pennsylvania Canal Co. v. Graham, 63 Penn. St. 290; Smith v. Holcomb, 99 Mass. 552; Holyoke v. Grand T. R. Co., 48 N. H. 541; Stockton v. Frye, 4 Gill, 406; Matteson v. N. Y. C. R. Co., 62 Barb. 364; Smith v. Overby, 30 Ga. 241; Cox v. Vanderkleed, 21 Ind 164; McGrew v. Stone, 53 Penn. St. 436; Ballou v. Farnum, 11 Allen, 73; Caldwell v. Murphy, 1 Duer, 233; 11 N. Y. 416; Kinney v. Crocker, 18 Wis. 74; Hanover R. Co. v. Coyle, 55 Penn. St. 396; Aaron v. Second Ave. R. Co., 2 Daly, 127; Aldrich v. Palmer, 24 Cal. 513; Wheaton v. North Beach R. Co., 36 id. 590; Illinois C. R. Co. v. Barron, 5 Wall. 90; Page v. Mitchel, 13 Mich. 63; Joslyn v. McAllister, 22 id. 300.

[3] Field on Dam., § 32. In a note to this section it is observed: "Although the author has felt compelled from the preponderance of authority to thus state the rule, he would also express his convictions that the adoption of the doctrine was a departure from the true principles of the law of damages and of public policy and a flaw in the structure of our jurisprudence, involving much controversy, and resulting in confusion and uncertainty. Nor is the doctrine by any means so deeply rooted in the common law, as to be placed

awarded are perhaps in most cases the same whether the doctrine of exemplary damages as advocated by Mr. Sedgwick, or the doctrine of actual damages as maintained by Mr. Greenleaf, be adopted.[1]

SEC. 314. **Same continued.** — According to the doctrine of actual damages only, the rule adopted would give adequate damages, not only for those pecuniary losses sustained which may be capable of a certain and definite pecuniary estimate, such as loss of time, clothing, and expenses of medical and other attendance, necessarily sustained and incurred by reason of the wrong of the defendant, but also for those other indefinite and uncertain damages not capable of definite pecuniary estimate, such as injury to the person, mental agony, lacerated feelings, disappointed hopes, and paternal affections. These elements of damages also usually enter into the estimate and determine the amount of exemplary damages allowed by them. The general result, therefore, may be practically the same; or we may say, in the language of Mr. Justice COLE: "The controversy on this subject between Prof. Greenleaf and Mr. Sedgwick may, perhaps, after all the attention and discussion it has excited, be found to be a controversy as to the terminology of the law rather than as to the extent of the right of recovery or the real measure of damages. Prof. Greenleaf holds that, while the plaintiff can only recover compensation, he is not confined to the proof of actual pecuniary loss, but that the jury may take into consideration every circumstance of the act which injuriously affected the plaintiff not only in his property but in his person, in his peace of mind, his quiet and sense of security in the enjoyment of his rights; in short, his happiness. But it must affect his happiness and not his neighbor's; and therefore to this question alone the jury should be restricted. While Mr. Sedgwick holds that "wherever the elements of fraud, malice, gross negligence or oppression mingle in the controversy, the law, instead of adhering to the system or even the language of com-

beyond the bounds of controversy." id., §§ 73, 74, 76, 77. See, also, Fay Field on Dam., § 32, note 1. See, also, v. Parker, 53 N. H. 342.

[1] See Sedg. on Dam. (3d ed.) Appendix and note; 2 Greenl. on Ev., §§ 266, 267; Field on Dam., §§ 26, 73, 74, 76.

pensation, adopts a wholly different rule. It permits the jury to give what it terms punitory, vindictive, or exemplary damages; in other words, blends together the interests of society and the aggrieved individual, and gives damages, not only to recompense the sufferer, but to punish the offender."[1]

Sec. 315. **Application of the doctrine to private corporations.** — We have already intimated that the doctrine of exemplary damages loses much of its force when it is sought to apply it to corporations; for as corporate acts, whether tortious or otherwise, must be done by agents, and the corporate body is but an imaginary one, without a physical or mental organization, it is a mere fiction of the law which supposes them capable of a wrongful intent. But, notwithstanding this, they are frequently held liable in a civil action, like natural persons, for the negligence and even for the wanton and malicious acts of their servants or agents, when committed in the line of their employment or within the scope of their duty.

Great extremes of views are, however, held by various decisions on the question of liability of corporations for exemplary damages. But many cases which have been assumed to sustain the doctrine are not clear as to the true basis of damages in such cases; and if it is evident that some of them rest upon the gross negligence of the agents or persons that may be held to represent the corporation in employing, or knowingly continuing incompetent agents in their employment, and the liability in some cases is made to rest upon grounds of public policy.[2]

In others, the right to exemplary damages rests upon some positive direction or authority of the company, or upon some subsequent indorsement or approval of the acts of the agent,[3] and in others the doctrine is held to be applicable, even where the tort is neither authorized nor ratified, as, unlike natural persons, corporations can be subject to no other corrective influence than pecuniary loss.[4]

[1] Hendrickson v. Kingsbury, 21 Iowa, 379.

[2] Field on Dam., § 87; Shearm. & Redf. on Neg., §§ 600, 601, and notes.

[3] Field on Dam., § 85 *et seq.*; Caldwell v. N. J. Steamboat Co., 47 N. Y. 282; Hagan v. Providence R Co., 3 R. I. 88; Belknap v. Boston, etc., R. Co., 49 N. H. 358.

[4] Field on Dam., § 85.

SEC. 316. **Extreme doctrine of liability for exemplary damages.** — The application of rules relating both to ordinary and exemplary damages against corporations are most common in case of the negligence of the servants and agents of railroad corporations. Their servants and agents are generally very numerous, and their duties are frequently important, and require the exercise of much care and judgment.

In a recent case in Maine, where a brakeman grossly insulted a passenger, and the railroad company was sued therefor, the supreme court of that state held the following extreme doctrine on this subject: "We confess that it seems to us that there is no class of cases where the doctrine of exemplary damages can be more beneficially applied than to railroad corporations, in their capacity of common carriers of passengers, and might as well not be applied to them at all, as to limit its application to cases where the servant is directly or impliedly commanded by the corporation to maltreat and insult a passenger, or to cases where such an act is directly or impliedly ratified, for no such cases will ever occur. A corporation is an imaginary being. It has no mind but the mind of its servants. All of its schemes of mischief, as well as its schemes of public enterprise, are conceived by human minds, executed by human hands; and these minds and hands are its servants' minds and hands. All attempts, therefore, to distinguish between the guilt of the servant and the guilt of the corporation, or the malice of the servant and the malice of the corporation, or the punishment of the servant and the punishment of the corporation, is sheer nonsense, and only tends to confuse the mind and confound the judgment. Neither guilt, malice, nor suffering, is predicable of this ideal existence called a corporation. And yet, under cover of its name and authority, there is as much that is deserving of punishment as can be found anywhere else. And since these ideal existences can neither be hung, imprisoned, whipped, or put in the stocks — since no coercive influence can be brought to bear upon them except that of pecuniary loss — it does seem to us that the doctrine of exemplary damages is more beneficial in its application to them than in its application to natural persons."[1]

[1] WALTON, J., in Goddard v. Grand T. R. Co., 57 Me. 202. See, also, Railroad Co. v. Hurst, 36 Miss. 660; Railroad Co. v. Blocher, 27 Md. 277.

But the weight of authority, in order to hold the corporation liable for exemplary or punitive damages, would seem to require that the corporation either consent to, or authorize, or ratify the tort of the servant; the same as would be required, if the wrong were done by a natural person, in order to visit on him exemplary damages.[1] Why punish the principal, who has not done the injury, or had any such purpose, and is personally free from fault; and especially where there are no circumstances indicating any want of care, or any negligence in fact on his part.[2] But it has been held that the corporation may be guilty of gross negligence, so as to authorize the imposition of exemplary damages where it knowingly permits an incompetent or unfit agent to continue in the business of the corporation, and where the injury, coming within the class of cases that authorizes exemplary damages, was the result of such incompetence and unfitness.[3] In the case of *Goddard* v. *Grand Trunk R. Co.*, the decision might perhaps have rested upon the doctrine of indorsement of the acts of the agent.[4] On this subject the court of appeals of New York observe: "For injuries by the negligence of a servant, while engaged in the business of the master, within the scope of his employment, the latter is liable for compensatory damages; but for such negligence, however gross or culpable, he is not liable to be punished in punitive damages, unless he is also chargeable with gross misconduct. Such misconduct may be established by showing that the act of the servant was authorized or ratified, or that the master employed or retained the servant, knowing that

[1] Caldwell v. New Jersey Steamboat Co., 47 N. Y. 282; Mendelsohn v. Anaheim Lighter Co., 40 Cal. 657; Turner v. North Beach R. Co., 34 id. 594; Hill v. N. O., etc., R. Co., 11 La. Ann. 292; Milwaukee, etc., R. Co. v. Finney, 10 Wis. 388; Boulard v. Calhoun, 13 La. Ann. 445; Hagan v. Providence R. Co., 3 R. I. 88; Evansville, etc., R. Co. v. Baum, 26 Ind. 70; Clark v. Newsam, 1 Exch. 131; Ackerson v. Erie R. Co., 32 N. J. L. 254; Belknap v. Boston, etc., R. Co., 49 N. H. 358; Bowler v. Lane, 3 Metc. (Ky.) 311.

[2] Field on Damages, § 86; Shearm. & Redf. on Neg., § 601.

[3] Id. See, also, Shearm. & Redf. on Negl., §§ 600, 601, and notes.

[4] See Field on Damages, § 87 and notes. In a more recent and a more temperate opinion, the same learned judge maintains the views expressed in Goddard v. Grand T. R. Co., *supra*. See opinion Walton, J., in Hanson v. Railroad Co., 62 Me. 84.

he was incompetent, or from bad habits, unfit for the position he occupied."[1]

SEC. 317. **Gross negligence which authorizes exemplary damages.** — In order to authorize exemplary damages for negligence under any circumstances, the negligence should be very flagrant and culpable, or the circumstances must show a very reckless indifference to duty or utter want of regard for persons or their property, from which it has been held that malice may be well inferred or imputed to the defendant.[2] Mere gross negligence is held not to be sufficient to warrant exemplary damages, even where the general doctrine is recognized; but the negligence must be so gross as to raise a presumption that the party in fault is conscious of the probable consequences of his negligence or carelessness, and is indifferent to the injury likely to follow.[3] And the corporation cannot in any case be liable for punitive damages for the acts of an agent where the agent himself would not be liable, were the suit brought against the agent himself.[4]

SEC. 318. **Inconsistency of the rule in its application to corporations.** — The difficulty and inconsistency, if not the absurdity of the application of the doctrine of exemplary damages, especially to corporations, has been frequently referred to and maintained by the

[1] Cleghorn v. N. Y. Cent., etc., R. Co., 56 N. Y. 44.

[2] Field on Dam., § 84. See, also, Welch v. Durand, 36 Conn. 182; Walker v. Erie R. Co., 63 Barb. 260; Farwell v. Warren, 51 Ill. 467; Green v. Craig, 47 Mo. 90; New Orleans, etc., R. Co. v. Statham, 42 Miss. 607; Picket v. Crook, 20 Wis. 358; Holyoke v. Grand Trunk R. Co., 48 N. H. 544.

[3] Wallace v. Mayor, etc., 2 Hilt. 440; Heil v. Glanding, 42 Penn. St. 493; Caldwell v. New Jersey Steamboat Co., 47 N. Y. 282; Cochrane v. Miller, 13 Iowa, 128; Brannon v. Baltimore R. Co., 47 N. Y. 280; Vicksburg Railroad Co. v. Patton, 31 Miss. 156. See, also, the English cases, Emblen v. Myers, 6 H. & N. 54; 3 L. J. Exch. 71; Bell v. Midland, etc., R. Co., 9 W. R. 612; 10 C. B. (N. S.) 287; 3 L. J. C. P. 73. See, also, Cleghorn v. N. Y. Cent., etc., R. Co., 56 N. Y. 44; Caldwell v. N. J. Steamboat R. Co., 47 id. 296.

[4] Ackerson v. Erie R. Co., 3 Vroom, 254; Hamilton v. Third Ave. R. Co., 53 N. Y. 25; Townsend v. N. Y. Cent. R. Co., 56 id. 295. See, also, further on the subject of corporate liability for exemplary damages, Hopkins v. A. & St. R. Co., 36 N. H. 9; Taylor v. Railway Co., 48 id. 304; Bannon v. Baltimore, etc., R. Co., 24 Md. 108; Baltimore, etc., R. Co. v. Blocher, 27 id. 277; Vicksburg, etc., R. Co. v. Patton, 31 Miss. 156; New Orleans, etc., R. Co. v. Hurst, 36 id. 660; Hill v. New Orleans, etc., R. Co., 11 La. Ann. 445; Jeffersonville, etc., R. Co. v. Rogers, 38 Ind. 116; Atlantic, etc., R. Co. v. Dunn, 19 Ohio St. 162; Frink v. Coe, 4 Greene (Iowa), 555; Perkins v. Missouri, etc., R. Co., 55 Mo. 201; Sedg. on Dam. 566 *et seq.*

most conclusive reasoning. The doctrine is based upon the supposition of willful wrong, or wicked intention. It supposes the purpose to do wrong. And the ground for the infliction of exemplary damages is in the nature of a punishment for that wrong, and also to thereby afford an example to others. But how can a corporation be guilty of a moral wrong? And on what principle can a corporation be held for exemplary damages for the moral wrongs of its servant to which it has in no way contributed, nor of which it has in no manner approved? In the able dissenting opinion of Mr. Justice Tapley, in *Goddard* v. *Grand Railroad Company* (from which we have already quoted from the opinion of the majority of the court, as given by Mr. Justice Walton), he observes: "The theory of punitive damages is the infliction of a punishment for an offense committed. It presupposes the existence of a moral wrong, an infraction of the moral code; a wrong in which the community has some interest in the redress and in securing immunity from in the future. It presupposes also an offender, and designs to punish that offender. To punish one not an offender is against the whole theory, policy and practice of the law and its administration. * * * The idea of punishing one who is not *particeps criminis* in the wrong done is so entirely devoid of the first principles and fundamental elements of the law, that it can never find place among the rules of action in an intelligent community."[1]

The absurdity thus presented and, in fact, the apparent want of foundation of the doctrine on any sound principle, has recently led to full and exhaustive consideration of the whole subject; and in a recent case in New Hampshire, where there had been an apparent if not a complete recognition of the doctrine, the supreme court of that State entirely repudiated it, as unsound in principle and entirely unnecessary in the measure of adequate damages, even in cases of the most aggravated torts.

Sec. 319. **Recent examination of the doctrine of exemplary damages.** — In the case above referred to, there was a critical examination of this doctrine and a review of the authorities bearing upon it,

[1] See dissenting opinion of Tapley, J., in Goddard v. Grand Trunk R. Co., 57 Me. 202.

and Mr. Justice NELSON, who delivered the opinion, observes: "Perhaps it would not be erroneous to say that the question has not been thoroughly examined and very carefully considered, but it has been suffered to lean upon and sustain itself by the supposed weight of authority, rather than to stand upon principle and inherent strength. At any rate, in view of the more recent cases, wholly contradicting and irreconcilable as we have seen them to be, * * * we are constrained to adopt the language of Judge CUSHING, in *Symonds* v. *Carter*,[1] and to say, * * * 'The doctrine in regard to vindictive damages seems to be now in such an unsettled condition as to justify and call for an examination of the authorities.'"[2] And after a review of various authorities supposed to sustain the doctrine, he proceeds to observe: "This review of some of the prominent cases touching the subject under consideration, it seems to me, must compel the conclusion which has already been indicated, that the modern erroneous idea of exemplary damages originated in, and is, in fact, the same thing as damages for wounded feelings, as distinguished from damages for an injury to the person or property. Damages for lacerated sensibilities, insulted honor, tyrannical oppression, and so forth, being much emphasized, and often being the principal damage suffered by the plaintiff, and language being loosely used and not preserving the true distinction carefully, or intemperately used, in the heat of indignation, which judges often felt and could not repress while contemplating an enormous outrage, it finally came to be understood that damages might be given in a civil suit, as a punishment for an offense against the public, an idea that is certainly not plainly declared (as I think I have unmistakably shown) in the early cases. * * * The result is, that the wholesale doctrine of damages for mental pain and wounded feeling, expressed in inconsiderate language vehemently announced, under circumstances and on occasions of judicial anger, irritation and excitement, has come to be misunderstood and mistaken for the doctrine of punitive damages, when, in fact, it is but a branch of the law of compensatory damages. * * * Thus, the doctrine of compensation for the plaintiff has become the doctrine of punishment for the defendant, importing into

[1] 32 N. H. 458.

[2] Fay v. Parker, 53 N. H. 342.

civil suits that punishment which still remains in criminal procedure; and so, unfairly and unconstitutionally, as well as illogically, punishing an offender twice for the same crime. * * * What is civil remedy but reparation for the wrong inflicted to the injury of the party seeking redress, compensation for damages sustained by the plaintiff? How could the idea of punishment be deliberately and designedly installed as a doctrine of civil remedies? Is not punishment out of place, irregular, anomalous, exceptional, unjust, unscientific, not to say absurd and ridiculous, when classed among civil remedies? What kind of a civil remedy for the plaintiff is the punishment of the defendant? The idea is wrong. It is monstrous heresy. It is an unsightly and an unhealthy excrescence, deforming the symmetry of the body of the law."[1]

Sec. 320. The conclusions, in the opinion of the court in the case last referred to, are strongly supported by the doctrines, and the principles and elements of damages, announced by the early writers. It was, for instance, affirmed by Mr. Rutherford, over a hundred years ago, that damages was every loss or diminution of what was a man's own, occasioned by the fault of another; that a loss or diminution of a man's right to life, limbs, liberty, character and reputation, through the fault of another, gives him a right to demand reparation from him by whose fault they have been lost or diminished; that the person who has been maimed has a right to enjoy the freedom from pain thus caused, and that he has a right to demand *smart money*, that is, indemnity in money for the smarts or pains caused by such wrongful act; that he should be entitled to recover such money, for blemishes which remain after the original smart or pain is over; that if a person has been wounded without cause, he should recover, not only for the loss of time and expense of cure, but for the pain he has felt; that if he has been beaten, but has sustained no loss of time, or incurred no expense thereby, he is still entitled to recover *smart money*, or satisfaction for the pain he has suffered; and that, if he has been unlawfully imprisoned, "the mere uneasiness arising from the situation under which he may include the disgrace attending it is a damage to him."[2]

[1] Fay v. Parker, 53 N. H. 342.

[2] See Rutherford's Ins., B. 1, chap. 17, §§ 1, 10.

SEC. 321. The term "*smart money*" has frequently been used in modern decisions as synonymous with exemplary or punitive damages; and to indicate damages given to punish the offender, and as an example to others. But referring to the meaning conveyed by the term "*smart money*," as used by Mr. Rutherford, we formerly observed: "We may here discover the origin of the term "*smart money*," which was evidently used in England over a hundred years ago, and especially by this distinguished author, in a different legal sense from the one now conveyed by its use, in connection with damages. It was then used to convey the idea of mere compensation for suffering or *smarts*, physical or mental, which an injured person suffered, and not to indicate a punishment of the wrong-doer, neither to make him smart for his wrong done, nor to deter others from a repetition of similar wrongs. The doctrine, even in cases of aggravated wrongs, was that of reparation and compensation, and not that of punishment or example."[1]

SEC. 322. **Conflict growing out of the diverse rules.** — Considerable conflict and inharmony has resulted in the adoption of different views and rules for the measure of damages. On the grounds and for the reasons to which we have referred, against the application of the doctrine of exemplary damages, in general, its application to corporations seems unnecessary. And the rejection of mental suffering, resulting from indignity to the person or outrage, under circumstances of aggravation, as an element of actual damages presents the strange anomaly of the possibility of the most intense and protracted mental suffering, caused by the wrongful act of another, without any remedy therefor. But where the doctrine of mere compensation for the losses sustained is only recognized, this is extended to cover all those results of injury, and incidental losses, such as injury to the feelings and affections, wounded pride, mental agony and suffering, which are not susceptible of any exact pecuniary estimate; and which, where the doctrine of exemplary damages is recognized, is usually covered in a general way by an allowance of exemplary damages, notwithstanding the jurors in estimating

[1] Field on Dam., § 74. See, also, Detroit Post Co. v. Mc Arthur, 16 Mich. 447; McKinley v. The Chicago & N. W. R. Co., 44 Iowa [not published].

these, in fact, take into consideration all the circumstances of aggravation and suffering, in determining the proper amount of them.

After some controversy and confusion in relation to this matter, there seems, however, to be a tendency of the courts, even where the doctrine of exemplary damages is recognized, to allow mental suffering as an element of actual damage.[1]

Sec. 323. **Damages for injuries resulting in death.** — The generally recognized common-law doctrine, that although a party might recover full compensation at least for an injury to his person, still, if the injury was so severe that death ensued, nothing could be recovered, has recently been assailed as based upon a mere dictum of Lord Ellenborough, and as unfounded in reason.[2]

But not only in England, but in the various states, there are statutes providing that actions may be maintained by the representatives of deceased persons, for damages sustained by the widow, next of kin, or estate of the deceased, or some of them, by reason of the wrongful act of the defendant producing the death.[3] Under these statutes there have been, on various important questions, presented for adjudication a great uniformity in the decisions. For instance, in the absence of special statutory regulations on the subject contained in these statutes, it has uniformly been held that only actual and not exemplary damages can be recovered; that nothing can be recovered for the physical or mental sufferings of the deceased, or for the sorrow, suffering or grief of the parties entitled to the benefit of the statutes;[4] that

[1] See McKinley v. The Chic. & N.W. R. Co., 44 Iowa [not published]; Fay v. Parker, *supra*.

[2] See opinion of Lord Ellenborough, in Baker v. Bolton, 1 Camp. 493. See opposing views, Dillon, J., in Sullivan v. Union P. R. Co., 3 Dillon, 334, U.S. C. C., Dist. Neb., Oct. T., 1874; 1 Cent. L. J. 595; Jones v. Perry, 2 Esp. 482: Cross v. Guthrey, 2 Root (Conn.), 90. Also discussions in 1 Cent. L. J. 590, 614, 622; Field on Dam., § 626.

[3] For copies of the various statutes relating to this subject, see Field on Dam., §§ 227, 228, 299 and notes.

[4] See decisions under the English statutes, Duckworth v. Johnson, 4 H. & N. 653; S. C., Franklin v. S. E. Railway Co., 3 H. & N. 211; Blake v. Mid. R. Co., 18 Q. B. 93; Gillard v. The Lancashire, etc., R. Co., 12 L. T. 356.

For decisions under various statutes of the states see Pennsylvania, etc., R. Co. v. McCloskey, 23 Penn. St. 526; Same v. Zebe, 33 id. 318; Same v. Kelly, 31 id. 372; Same v. Vandever, 36 id. 298; Same v. Henderson, 51 id. 315; North Pennsylvania R. Co. v. Robinson, 44 id. 175; Cleveland, etc., R. Co. v. Rowan, 66 id. 393; Whitford v. Panama R. Co., 22 N. Y. 465; Quin v. Moore, 15 id. 432; McIntyre v. N. Y. Cent. R. Co., 47 Barb. 515; Lehman

damages can only embrace those matters that are the source of pecuniary injury to the persons for whose benefit the statutes were intended, but that the jury have great latitude in estimating such damages;[1] that nothing can be allowed by way of *solatium* for grief or loss of society;[2] and that the jury cannot consider, in an action for the death of a wife, the loss of her society, or the husband's mental suffering, as an element of damages.[3]

SEC. 324. **Elements of damages in case of death; what it is competent to show.** — In case of liability under the statutes for the death of a person, it has been held that it was competent to show the value of the life of the deceased to the parties entitled to recover therefor;[4] the loss of personal care and training, and intellectual and moral culture which would have been received had the deceased lived; "the exact situation, annual earnings, habits, health and estate of the deceased; the profits of his labor or business; what he would have earned for the support of those entitled to recover, or for the estate, as the case may be, and the probability or reasonable expectation of the life of the deceased at the time of the injury, and which may be determined by reference to the 'Carlisle' or other tables of recognized scientific accuracy relating to the expectation of human life."[5]

v. Brooklyn, 29 id. 234; State of Maryland v. Baltimore, etc., R. Co., 24 Md. 84; Central R. Co. v. Baches, 55 Ill. 379; Central R. Co. v. Weldon, 52 id. 290; Chicago & N. W. R. Co. v. Swett, 45 id. 197; Chicago & Alt. R. Co. v. Shannon, 43 id. 338; City of Chicago v. Major, 18 id. 349; Donaldson v. Miss. & Mo. R. Co., 18 Iowa, 280; Telfer v. Northern R. Co., 30 N. J. L. 188.

[1] Pennsylvania R. Co. v. Keller, 67 Penn. St. 300; Tilley v. Hudson R. R. Co., 29 N. Y. 252; Duckworth v. Johnson, 4 H. & N. 653; Paulmier v. Erie R. Co., 34 N. J. L. 151.

[2] Pyne v. Great N. R. Co., 4 B. & S. 396; Jour. (N. S.) 199; 32 L. J. Q. B. 377; 11 W. R. 922; 8 L. T. (N. S.) 734.

[3] Green v. Hudson River R. Co., 32 Barb. 25; Blake v. Midland R. Co., 18 Q. B. 93; 21 L. J. Q. B. 233. See also, Donaldson v. Miss. & Mo. R. Co., 18 Iowa, 280. It may be observed that no deduction from the amount to which the parties may be entitled can be made on account of any insurance by them or others on the life of the deceased. Althorpf v. Wolfe, 22 N. Y. 355; Harding v. Townshend, 43 Vt. 536; Pittsburg, etc., R. Co. v. Thompson, 56 Ill. 138; Field on Dam., § 587 *et seq.* and notes.

[4] Field on Dam., § 631. See, also, in support of the propositions made, Penn. R. Co. v. Keller, 67 Penn. St. 300; Kreister v. Smith, 66 N. C. 154; McIntyre v. N. Y. Cent. R. Co., 37 N. Y. 287; 35 How. Pr. 36; Quin v. Moore, 15 N. Y. 435; Sherman v. West Stage Co., 24 Iowa, 515; Illinois, etc., R. Co. v. Weldon, 52 Ill. 290; Baltimore, etc., R. Co. v. State, 33 Md. 542; David v. South W. R. Co., 41 Ga. 223.

[5] Field on Dam., § 632.

CHAPTER XIII.

SUITS AT LAW BY AND AGAINST CORPORATIONS.

SEC. 325. The right to sue and the liability to be sued, common-law incidents.
SEC. 326. In what name must sue or be sued.
SEC. 327. May sue and be sued by members.
SEC. 328. Same continued.
SEC. 329. Where suit may be brought.
SEC. 330. Foreign corporations not citizens.
SEC. 331. Same continued.
SEC. 332. Same continued.
SEC. 333. Same continued.
SEC. 334. When suits may be brought in the federal courts.
SEC. 335. A corporation may be an alien under the judiciary act.
SEC. 336. It may be a citizen under the constitution of the United States, and the acts of congress relating to judicial powers and the jurisdiction of the courts.
SEC. 337. Same continued.
SEC. 338. Corporations considered as citizens under the statutes of the United States, for the removal of suits from the state to the federal courts.
SEC. 339. Same continued.
SEC. 340. Same continued.
SEC. 341. Same continued.
SEC. 342. Rights in courts under the national banking law.
SEC. 343. Same continued.
SEC. 344. Same continued.
SEC. 345. Parties to a suit.
SEC. 346. Process.
SEC. 347. Pleadings.
SEC. 348. When a party dealing with a corporation is estopped to deny the corporate existence.
SEC. 349. When the corporation is estopped to deny its existence.
SEC. 350. Same continued.
SEC. 351. General denial.
SEC. 352. Proof of incorporation.
SEC. 353. Same continued.
SEC. 354. Corporate records.
SEC. 355. Same continued.
SEC. 356. Stockholders' rights in equity.

SEC. 325. **The right to sue and the liability to be sued a common-law incident.** — One of the common-law incidents of a corporation is the capacity of suing and being sued, the same as a natural person. This power is usually contained among the specified powers, in general incorporating acts. It is evident that not only corporations, but natural persons, would, in many cases, be without remedy for wrongs suffered, if this right did not exist. As corporations may take, hold and convey property, make contracts, and appoint agents, and in pursuit of their respective objects and business, inflict and suffer wrongs and injuries, it is but reasonable that they should have the capacity, not only to sue, but also of being sued.[1]

The remedy is quite as important as the legal right, and if the law gives a right it should furnish a means to vindicate and maintain it; *lex semper debet remedium.*[2] He who has a right should have a remedy; *ubi jus ibi remedium;* and this is enforceable only by means of proceedings in courts. The right of a corporation to sue, and the liability to be sued is not only well settled as an incident of corporate capacity, but rests upon the soundest principles of justice. And this remedy includes the right, not only to ordinary proceedings in courts, but all those extraordinary remedies provided by law, and which natural persons may claim and enjoy. Where statutes give special or extraordinary remedies to persons, this is usually held to include corporations. And the statutes of some of the states of the Union expressly provide that whenever the word "person" is used in the statutes it includes corporations.[3]

[1] And this right exists even though the organization is defective. Heaton v. Cincinnati, etc., R. R. Co., 16 Ind. 275; Holmes v. Gilliland, 41 Barb. 568; Bangor, etc., R. R. Co. v. Smith, 47 Me. 34; South Bay Meadow Dam Co. v. Gray, 30 id. 547; Shrewsbury v. Brown, 25 Vt. 197; Baltimore, etc., R. R. Co. v. Gallahue, 12 Gratt. 655. The rule being that, where a right is given, by necessary inference the right to enforce or defend it is also given. Tilden v. Metcalf, 2 Day, 259. Unless, as may be the case, the charter or statute provides a special tribunal for the settlement of such matters, in which case the remedy there is exclusive of all others. Bassett v. Carlton, 32 Me. 553.

[2] Per HOLT, J., in Ashby v. White, 2 Lord Raymond, 953; Winsmore v. Greenbank, Willes, 577.

[3] But under the New York act of 1865, providing for incorporation for certain purposes, it has been held that the capacity of suing and being sued is subject to the qualification, that it is in relation to some matter within the scope of the legitimate purposes of the organization. Ancient City Club v. Miller, 7 Lans. 412.

Sec. 326. **In what name must sue or be sued.** — The general rule is, that a corporation can only sue or be sued in its corporate name,[1] even though the action is upon a contract made for it by an agent,[2] or although it is upon subscriptions to its stock in terms made payable to the commissioners appointed to receive subscriptions,[3] or is upon a contract entered into by and in the name of its trustees,[4] or its treasurer.[5] But, where a note or other obligation not negotiable is made payable to an individual "or his successor," he being the treasurer or other officer of the corporation, and it is really for the benefit of the corporation, it has been held that the action should be brought in the name of the individual and not in the name of the corporation.[6] But this is only the rule in cases where the note or other obligation is not negotiable, and therefore is put upon the same footing as a specialty, the legal title remaining in the payees until they have conveyed it.[7] If the statute (as is sometimes the case) authorizes the corporation to sue in the name of an officer thereof, as in the name of its president, treasurer, directors, etc., suit can be brought in the name of such officer or in its corporate name, at its election, unless the statute expressly restricts it to the former mode of suing.[8] If, after a right accrues for or against a corporation, its name is changed, it should be sued in its new name.[9]

Sec. 327. **May sue and be sued by members.** — A corporation may sue or be sued by any of its members, whether natural persons or partnerships, or other corporate bodies; for its members and constituent parts are not, in a legal sense, the corporate body. Though it is composed of these members, they are but the elements which form the one artificial body. The rule that a partner cannot sue

[1] Bradley v. Richardson, 2 Blatchf. 343; Curtiss v. Murry, 26 Cal. 633; Porter v. Necerrvis, 4 Rand. 359.

[2] Binney v. Plumley, 5 Vt. 500; Garland v. Reynolds, 20 Me. 45; Commercial Bank v. French, 21 Pick. 486.

[3] Delaware, etc., R. R. Co. v. Trick, 23 N. J. L. 321.

[4] Bundy v. Birdsall, 29 Barb. 31; Leonardsville Bank v. Willard, 25 N. Y. 574.

[5] Warner Academy v. Starrett, 15 Me. 443.

[6] Binney v. Plumley, *ante;* Timms v. Williams, 3 Ad. & El. 413; Haynes v. Covington, 21 Miss. 408.

[7] Chaplin v. Canada, 8 Conn. 286.

[8] College of Physicians v. Lalbas, 1 Ld. Raym. 153. See, also, Manney v. Motz, 4 Ired. Eq. 195; Dart v. Hunston, 22 Ga. 506; Williams v. Beaumont, 3 Moore & S. 705.

[9] Mayor, etc., of Colchester v. Seaber, 3 Burr, 1866; Madison College v. Burke, 6 Ala. 494.

the partnership, or that a person cannot be both plaintiff and defendant in the same suit, has no application to corporations; and it is a common practice not only for a person to sue the corporation of which he is a member, but for corporations to sue their members.[1] Such suits may be brought for all the variety of causes, and in all the various forms, and in the same manner as though the parties thereto were natural persons.[2]

SEC. 328. **Same continued.**—A corporation is an imaginary and ideal person, and its contracts are not the contracts of its individual members. "Being lawfully assembled, they represent but one person, and may, consequently, make contracts, and by their collective consent, oblige themselves thereunto."[3] It is, therefore, evident that the persons composing a corporate body may sue or be sued by a corporation, for any cause, and under any circumstances, the same as natural persons. Thus, it is held that, in case of an incorporated company with a capital stock divided into shares and held by individuals, the corporation and the shareholders are distinct legal persons, and can sue and be sued by each other; that where the directors of a corporation have misapplied a portion of its funds, the stockholders may recover the amount thus misapplied, and if such misapplication is threatened they may restrain it by injunction; that where a corporation is threatened with an injury which it might restrain by injunction, but it refuses so to do, a stockholder may maintain a bill in equity, for an injunction to prevent the injury, in order to protect his own interests from immediate danger; but it has also been held that where a corporation has been injured by a tort or breach of contract, an individual stockholder will not be permitted to come into court and

[1] Connell v. Woodward, 6 Miss. 665; Gray v. Portland Bank, 3 Mass. 385; Bac. Abr., tit. Corp.; Merrick v. Peru Coal Co., 61 Ill. 472.

[2] Dill. on Corp., chap. 23. A corporation may not only contract with, but sue its stockholders, officials or corporators, in their individual capacity. Wausau Broom Co. v. Plumer, 35 Wis. 274; Chicago, etc., R. Co. v. Howard, 7 Wall. (U. S.) 392.

A corporator may not only contract with his corporation but may sue or be sued on such contracts. Culbertson v. Wabash Navigation Co., 4 McLean, 554.

[3] Ayliffe's Civ. Law, tit. 35, B. 2, p. 198; 1 Bl. Com. 475; Hayden v. Middlesex Turnpike Corporation, 10 Mass. 403; The Proprietors of the Canal Bridge v. Gordon, 4 Pick. 304; Hartford Bank v. Hart, 3 Day, 491; Waterbury v. Clark, 4 id. 198; Ruby v. Abyssinian Soc., 15 Me. 306; Wheelock v. Moulton, 15 Vt. 519; Isham v. Bennington Iron Co., 19 id. 249.

prosecute the cause of action, because the corporation fails or refuses so to do.[1]

Sec. 329. **Where suit may be brought.**—A corporation, being an artificial person created by the supreme authority of the state, is, in a legal sense, a citizen of the state of its creation, and is generally entitled to all the rights and privileges in court, of a citizen of the state where it is instituted. But a distinction has been made between a corporation and a natural person, in respect to its absolute right to sue in the courts of a state other than the state creating it.[2] It is held that, outside of the territory of the sovereignty creating it, it can only maintain a suit on the ground of the comity existing between states. But, unless prevented on the ground of public policy, a corporation may usually maintain a suit in the courts of another state, the same as a natural person.[3]

[1] Samuel v. Holladay, 1 Woolw. (C. C.) 400.

[2] Lathrop v. Union Pacific R Co., 1 McArthur, 234.

[3] Thompson v. Waters, 25 Mich. 214; 5 Cranch, 289; Second National Bank v. Lovell, 2 Cin. (O.) 397; Henriques v. Dutch West India Co., 2 Ld. Raym. 1535; Chit. on Cont. 86; National Bank St. Charles v. De Bernales, 1 C. & P. 569; Beverly v. Lincoln Gas-light Co., 6 A. & E. 829.

As the right of a foreign corporation to sue in the courts of a state outside the one in which it was created depends upon the comity of the state or country where the suit is brought, it follows that this comity may be granted or denied in the discretion of the tribunals of such other states or countries, especially where the corporation was instituted for purposes hostile to the interests of the state. American Colonization Society v. Gartreil, 23 Ga. 448. But, except where prevented by statute, the courts will not generally deny the right, and it may be said that generally foreign corporations have the same capacity to sue or be sued in the courts of another state as domestic corporations, subject to such terms and conditions as are imposed by the local laws. Persse and Brooks Paper Works v. Willett, 4 Abb. Pr. 119; British American Land Co. v. Ames, 6 Metc. (Mass.) 391; Fisk v. Chicago, etc., R. R. Co., 4 Abb. Pr. (N. S.) 378; Mutual Benefit Life Ins. Co. v. Davis, 12 N. Y. 569; New York Dry Docks v. Hicks, 5 McLean (U. S. C. C.), 111; Halcomb v. Illinois, etc., Canal Co., 4 Ill. 236; Hartford Bank v. Barry, 17 Mass. 97; New York F. Ins. Co. v. Ely, 5 Conn. 605; Portsmouth Livery Co. v. Watson, 10 Mass. 91. Since a corporation created by one state can transact business in another state, with the assent, expressed or implied, of the latter state, a corporation acting in a state foreign to its creation, under a law of the latter state, which recognizes its existence for the purpose of making contracts within that state, and being sued upon them through notice to its contracting agents in that state, is bound by such statute; and a judgment recovered against the corporation upon a notice given to its contracting agents, according to the statute, is valid. Lafayette Ins. Co. v. French, 18 How. (U. S.) 404. Where a corporation is chartered in two separate states, and exercises its franchises in each, it may be restrained in either from expending its funds for any other than corporate purposes anywhere; and a plea to the jurisdiction of the courts of either state is not tenable, on the ground that part of the corporate property lies in a different state, or that it owes its corporate existence,

The laws or institutions of other states will not be regarded where it is manifestly against the laws of the state, or of the public

in part, to another state. State v. Northern Central R. R. Co., 18 Md. 193. The courts of a state may grant a *mandamus* to reinstate an officer of a foreign corporation *carrying on business within the state, in the office of the corporation which he was exercising there*, and from which he had been ousted by the wrongful act of the directors; for the court may recognize the existence of a foreign corporation, and it may determine the rights of individuals, though it has no jurisdiction over the corporation itself. Curtis v. McCullough, 3 Nev. 202. In New York, a foreign corporation who have appeared as defendants in an action in the supreme court are deemed, for the purposes of the action, as much within, and subjected to, the jurisdiction of the court, as if they were a corporation under the laws of the state. It is true, that for the purposes of certain provisions of the statute of limitations, they can never come within the description of those who are called residents, so as to allow the statute to run against them; but their foreign origin does not prevent actions against them for any cause, when they can be brought within the jurisdiction of the court. Dart v. Farmers' Bank, 27 Barb. 337.

A corporation having property or capable of being sued within a state, though created by the laws of another state, is a corporation "within the state" within the meaning of the laws allowing attachments. Libbey v. Hodgdon, 9 N. H. 394; St. Louis Perpetual Ins. Co. v. Cohen, 9 Mo. 416; Vogle v. New Granada Canal and Steam Nav. Co. of New York, 1 Houst. 294.

The language of a statute, which provides that "a corporation may be summoned as garnishee," etc., is sufficiently comprehensive to include foreign corporations and render them equally subject, with domestic corporations, to the process of garnishment, in all cases, where an original action may be commenced against them in the courts of the state to recover the debt in respect to which the process of garnishment is served. Brauser v. New England Fire Ins. Co., 21 Wis. 506.

But unless the statute authorizes the attachment of property and provides for service in case of absent defendants, or provides for service on corporations having no existence under the laws of the state, there is no way in which a foreign corporation can be brought within the jurisdiction of the courts of another state. Lathrop v. Union Pacific R. R. Co., 1 McArthur, 234; Camden, etc., Co. v. Swede Iron Co., 32 N. J. L. 15. Thus, in New Hampshire, a foreign corporation may be sued, provided effective service can be made by the laws of the state upon the corporation or its property. Libbey v. Hodgdon, 9 N. H. 394. And in Vermont service may be made under the statute by attachment of property if any is to be found, or upon its general agent if one has been appointed, or if none has been appointed, upon a special agent, if there is any in the state. In Minnesota service cannot be made by publication. Sullivan v. La Crosse, etc., Packet Co., 10 Minn. 386. In New Jersey, if a foreign corporation, when the action is commenced, does not do business, and has no office or place of business in that state, the contract sued on not having been entered into in this state, such corporation, except by its own consent, cannot be brought within the jurisdiction of this or any court of this state. And if sued under such circumstances, the proper remedy is by a plea to the jurisdiction. The act of 1865, Pamph. 467, simply appoints a method of bringing corporations invested with a foreign character into the courts of this state when such courts have jurisdiction over them. It has no scope beyond this. Camden, etc., Co. v. Swede Iron Co., 32 N. J. L. 15. And generally it may be said that a foreign corporation can only be sued when it can be brought within the jurisdiction of the courts under the provisions of some statute.

policy so to do.[1] A corporation created in one state of the Union is considered as a foreign corporation in every other state; but the doctrine of the comity of states, applicable in general to the rights in courts of foreign corporations, has still stronger force when such corporations bring suit in the courts of a sister state of the Union, from the fact of their natural, political and social, and the extent and intimacy of their commercial relations.[2] It is evident, however, that it is competent for a state to prohibit a foreign corporation, not only from doing business within its territorial limits, but from maintaining suits in its courts. The legislature of the state, in that respect, is supreme, and could prohibit a foreign corporation from doing business therein, or impose such conditions thereon as the public policy may seem to require. As the legislature may, in the creation of private corporations, limit their powers and franchises in such a manner as it may deem proper, it is, perhaps, reasonable that they should have the power to limit or restrain foreign corporations within the state.[3]

Sec. 330. **Foreign corporations not citizens.** — The constitution of the United States provides that "the citizens of each state shall

[1] Id. The power of the corporation of one state to make contracts in another state rests upon the comity between the states, and the comity thus extended is no impeachment of sovereignty, it being the voluntary act of the state by which it is offered, but inadmissible when contrary to its policy, or prejudicial to its interests. Bank of Augusta v. Earle, 13 Pet. 519. Mr. Story, in his treatise on the Conflict of Laws, observes: "There is then not only no impropriety in the use of the phrase, 'comity of nations,' but it is the most appropriate phrase to express the true foundation and extent of the obligation of the laws of one nation within the territories of another. It is derived altogether from the voluntary consent of the latter; and is inadmissible when it is contrary to its known policy, or prejudicial to its interests."

[2] Bank of Marietta v. Pindall, 2 Rand. 465; Portsmouth Livery Co. v. Watson, 10 Mass. 91; The State of Louisiana v. Fosdick, 21 La. Ann. 434; S. C., 1 With. Corp. Cas. 581; Holcomb v. Ill., etc., Canal Co., 4 Ill. 228; Frazier v. Willcox, 4 Rob. (La.) 518; Bank of Edwardsville v. Simpson, 1 Mo. 184; Lewis v. Bank of Kentucky, 12 Ohio, 132; Ely v. Fire Ins. Co., 5 Conn. 560; Williamson v. Smoot, 7 Mart. (La.) 31; President, etc., of Lombard Bank v. Thorp, 6 Cow. 46; Hartford Bank v. Barry, 17 Mass. 97; Marine, etc., Ins. Bank v. Jauncey, 1 Barb. 486; Tombigbee, etc., R. Co. v. Kneeland, 4 How. (U. S.) 16; Guaga Iron Co. v. Dawson, 4 Blackf. 202; Savage Man. Co. v. Armstrong, 19 Me. 147. As to the doctrine of the comity of states relating to contracts, and the right to enforce them by corporations as well as natural persons, see id. See, also, Silver Lake Bank v. North, 4 Johns. Ch. 370.

[3] Frazier v. Wilcox, 4 Rob. (La.) 518; Atterberry v. Knox, 4 B. Monr. 90; Marietta v. Pindall, 2 Rand. 465; New Hope, etc., Co. v. Poughkeepsie Silk Co., 25 Wend. 648.

be entitled to all privileges and immunities of citizens of the several states." [1] Is a corporation within the meaning of this provision a citizen, and entitled to all the rights and the remedies of a natural person in a state other than the one where it was created and has a legal existence? This question has been settled by various adjudications, and we have already stated that a state had the power to prohibit foreign corporations from doing any business in the state, or of regulating the business, or of prohibiting it from suing in its courts. And it has been repeatedly held that corporations were not citizens within the foregoing constitutional provision, so as to entitle them to all the rights and privileges of natural persons.

SEC. 331. **Same continued.** — The term "citizen" has different meanings in different parts of the constitution of the United States. Where the constitution says that "the citizens of each state shall be entitled to all the privileges and immunities of citizens in the several states," the word "citizens" has a different meaning from its use in that part of the constitution where it says that "the judicial power shall extend to all cases in law and equity, where the controversy is between a state and citizens of another state, between citizens of different states, between citizens of the same state claiming lands under grants of different states, and between a state or citizens thereof and foreign states, citizens or subjects," [2] and that part of the judiciary act of congress where jurisdiction is made to depend upon citizenship of one of the parties in another state,[3] and the act providing for the removal of suits from the state courts to the circuit courts of the United States.[4]

SEC. 332. **Same continued.** — In the former case it is held that corporations are not citizens in the sense of this constitutional provision.[5] It has been ably maintained that, although the individ-

[1] § 2, art. 4.
[2] Art. 3, § 2.
[3] Act Sept. 24, 1798, Rev. Stat. (1874) 109.
[4] Rev. Stat. (1874) 113, § 639.
[5] Drawbridge Co. v. Shepherd, 20 How (U. S.) 227; Louisville, etc., R. Co. v. Letson, 2 id. 497; La Fayette Ins. Co. v. French, 18 id. 404; Warren Man. Co. v. The Etna Insurance Co., 2 Paine, 501; Paul v. Virginia, 8 Wall. 168; The Insurance Company v. The Commonwealth, 5 Bush, 68.

nals composing a corporation may be citizens under the provision of the constitution securing "the citizens of each state the privileges and immunities of citizens of the several states," such members of the corporation carrying on business in the corporate name are subject to the liabilities and entitled to the privileges of citizens under the constitution, but that this privilege could have no application to an invisible, intangible and artificial corporate person; that where a corporation makes a contract, it is the contract of the legal entity, of the artificial being created by the charter, and not the contract of the members; and that the only rights the corporation can claim are the rights conferred by the charter, and not the rights which belong to its members as citizens of a state.[1]

This view was recently ably maintained by Chief Justice Breese, in delivering the opinion of the supreme court of Illinois, in *Ducat* v. *The City of Chicago*.[2] He says: "Corporations have no *status* in states, as citizens of the state creating them, and when they come to this state to do business and make profits, a discrimination can rightfully be made between them and our domestic corporations of the same character, and that if it should be deemed good policy by the legislature they could be so taxed or otherwise burdened as to compel them to leave the state. They may be regarded as a benefit or a nuisance, according to the caprice of the legislature, they not being citizens in any approved sense of that term, which can be correctly understood in no other sense than that in which it was understood in common acceptation, when the constitution was adopted, and as it is universally explained by writers on government, without an exception. A citizen is of the *genus homo*, inhabiting and having certain rights in some state or district. Such a being, if a citizen of New York, or of any other state of this Union, is, for many purposes, a citizen of this state, and of all the other states, and is entitled to all such privileges and immunities within the purview of the constitution, as the citizens of those states permanently residing therein are entitled to.

[1] Bank of Augusta v. Earle, 13 Peters, 519.

[2] 48 Ill. 172; affirmed in supreme court, U. S., 10 Wall. 410. See, also, Corfield v. Coryell, 4 Wash. (C. C.) 371.

These are personal privileges, and attach to him in every state into which he may enter, as to a human being — as a person with faculties to appreciate them, and enjoy them ; not to an intangibility, a mere legal entity, an invisible artificial being, but to the man made in God's own image. The individual citizen has the power to move from place to place, as his business or his pleasure may prompt. He has rights which are so important as to make it desirable that they should be uniform throughout this broad and expanded Union, which, in order to promote mutual friendship and free social or business intercourse among the people of the several states, were placed by this clause of article four (of the constitution) under the protection of the federal government. In the case of corporations no such reasons exist. Corporations, in the states of their creation, are not entitled to the privileges or rights of the citizens of such states. They cannot vote at elections; they are ineligible to any public office ; they cannot be executors, administrators or guardians. They are artificial beings, endowed only with such powers, and privileges, and rights, as their creator thought proper to bestow upon them. They have not the power of locomotion, and of course, are not fit subjects, in the view above expressed, of the constitutional clause on which this case turns. Not being able to go into the states of the Union at their corporate will and pleasure, and exercise their faculties therein, they cannot, by any reasonable and just view of that clause, be deemed as coming within its spirit or object." [1]

[1] Liverpool Ins. Co. v. Massachusetts, 10 Wall. 566 ; Paul v The Commonwealth of Virginia, 8 id. 168. In the latter case, Mr. Justice FIELD, on the construction of this clause in the constitution, observes : " It was undoubtedly the object of the clause in question to place the citizens of each state upon the same footing of other states, so far as the advantages resulting from citizenship in those states are concerned. It relieves them from the disabilities of alienage in other states ; it inhibits discriminating legislation against them by other states ; it gives them the right of free ingress into other states, and egress from them ; it insures to them in other states the same freedom possessed by the citizens of those states in the acquisition and enjoyment of property and in the pursuit of happiness, and it secures to them in other states the equal protection of their laws. It has been justly said that no provision in the constitution has tended so strongly to constitute the citizens of the United States one people as this. Indeed, without some provision of the kind, removing from the citizens of each state the disabilities of alienage in other states, and giving them equality of privilege with citizens of those states, the republic would have constituted little more than a league of states ; it would not have constituted the union which now exists. But the privileges and immunities secured to

Sec. 333. **Same continued.** — It will be evident, from what has been said, that foreign corporations have no absolute and constitutional rights other than in the states where constituted, and can only claim such privileges in the courts of a foreign state as are permitted by the comity of states, and not in derogation of the express statutory or constitutional provisions of such states.

Sec. 334. **When suits may be brought in the federal courts.** — We have observed that corporations have usually the same *status* as natural persons in the courts of the state creating them, and that they do not in foreign states enjoy the full capacity of a natural person; that they are not entitled to all those privileges and immunities which natural citizens of a foreign state would be entitled to under the constitution of the United States, or, in other words, that under the provisions of the constitution referred to they are not citizens. But the term "citizen" has a different meaning in other parts of the constitution, and especially in that part of it which limits the judicial power of the courts of the United States, where the term "citizen" is held to include corporations. On this subject the constitution provides that the judicial power of the United States courts shall extend to all cases of controversy between a state and citizens of another state and between citizens of different states.[1]

Sec. 335. **A corporation may be an alien under judiciary act.** — The judiciary act of congress, framed and adopted to carry into effect

citizens of each state in the several states by the provision in question, are those privileges and immunities which are common to the citizens in the latter states under their constitution and laws, by virtue of their being citizens. Special privileges enjoyed by citizens in their own states are not secured in other states by this provision. It was not intended by the provision to give to the laws of one state any operation in other states. They can have no such operation, except by permission, express or implied, of those states. The special privileges which they confer must, therefore, be enjoyed at home, unless the assent of other states to their enjoyment therein be given. Now, a grant of corporate existence is a grant of special privileges to the corporators, enabling them to act for certain designated purposes as a single individual, and exempting them (unless otherwise specially provided) from individual liability. The corporation, being a mere creation of local law can have no legal existence beyond the limits of the sovereignty where created."

[1] Const., art. 3, § 2.

this provision of the constitution, gives the circuit court of the United States jurisdiction "of all suits of a civil nature at common law or in equity, where the matter in dispute, exclusive of costs, exceeds the sum or value of five hundred dollars and an alien is a party, or the suit is between a citizen of the state where the suit is brought and a citizen of another state."[1] In the construction of this provision the courts have held that the term "citizen" includes corporations, and that they might sue or be sued in the circuit courts of the United States, in all cases the same as a natural person.

SEC. 336. **Corporations may be citizens under the constitution and the acts of congress, relating to judicial powers and jurisdiction of the courts of the United States.**— In reference to citizenship under the constitutional provision and the acts of congress relating to the judicial powers and jurisdiction of the United States courts, which we have referred to, it is held that a corporation has its dwelling place and residence in the state of its creation; that as an artificial legal person it has no existence beyond the territory of the sovereignty creating it; that for the purpose of conferring jurisdiction a suit against a foreign corporation must be considered as a suit against a citizen of the state creating it; that there is a presumption in such cases that the members of the corporation are citizens of the state creating it, and that no statute of the state where such corporation may transact business, nor any thing done by the corporation in regard to the manner of transacting its business, can defeat the right of the corporation to sue, or its liability to be sued in the circuit courts of the United States, as though it were a natural person and a citizen of the state where it was legally created and is located.[2] In a recent case in the supreme court of the United States, where the commonwealth of Pennsylvania sued a corporation in the United States circuit court, and the question of jurisdiction was presented under the constitu-

[1] Rev. Stat. U. S. (1875), § 629; Bank of the United States v. Devaux, 5 Cranch, 184; Inhabitants of Lincoln v. Prince, 2 Mass. 544. See, also, Rex v. Gardner, Cowp. 83; Sparenburgh v. Bannatyne, 1 B. & P. 163.

[2] Manufacturers' National Bank v. Baach, opinion by BLATCHFORD, J., in the circuit court of the United States, southern district of N. Y.; 1 With. Corp. Cas. 93.

tion and the act above referred to, the court held that a state might bring suit in the circuit court of the United States against a citizen of another state, but not one of her own citizens; that it did not sufficiently appear, from any averment in the declaration, that the defendant was a corporation created in California; and that a state cannot bring a suit in the United States courts against one of its own citizens.[1]

Sec. 337. **Same continued.** — In an action on certain bonds, issued by the board of supervisors of Mercer county, Illinois, where the question of the citizenship of the corporation and the jurisdiction of the circuit court of the United States based thereon was presented, on error in the supreme court of the United States, Chief Justice Chase, in delivering the opinion of the court, said: "The record presents but one question which has not been heretofore fully considered and repeatedly adjudicated. That question is, whether the board of supervisors of Mercer county can be sued in the circuit court of the United States by a citizen of another state than Illinois. It presents but little difficulty. It has never been doubted that a corporation, all the members of which reside in the state creating it, is liable to a suit upon its contracts by the citizens of other states, but it was for many years much controverted whether an allegation, in a declaration that a corporation defendant was incorporated by a state other than that of the plaintiff and established within its limits, was a sufficient averment of jurisdiction. And in all cases prior to 1844, it was held necessary to aver the requisite citizenship of the corporators. Then the whole question underwent a thorough examination in the case of the *Louisville, Cincinnati & Charleston Railroad Company* v. *Letson*,[2] and it was held that a corporation created by laws of a state and having its place of business in that state, must, for the purpose of suit, be regarded as a citizen within the meaning of the constitution giving jurisdiction founded upon citizenship.

[1] The Commonwealth of Pennsylvania v. The Quicksilver Mining Co., 10 Wall. 553. See, also, Railway Co. v. Whitton, 13 id. 270; The Commonwealth of Penn. v. The Quicksilver Mining Company, *supra*.

[2] 2 How. 497.

This decision has been since reaffirmed, and must now be taken as the settled construction of the constitution."[1]

SEC. 338. **Corporations considered as citizens under the act of congress for the removal of causes from the state to the federal courts.** — It is provided by the Revised Statutes of the United States as follows: "Any suit commenced in any state court, wherein the amount in dispute, exclusive of costs, exceeds the sum or value of $500, to be made to appear to the satisfaction of said court, may be removed for trial, into the circuit court, for the district where such suit is pending, next to be held after the filing of the petition for such removal hereinafter mentioned, in the cases and in the manner stated in this section.

"First. When the suit is against an alien, or is by a citizen of the state wherein it is brought, and is against a citizen of another state, it may be removed on the petition of such defendant, filed in the said state court at the time of entering his appearance in said state court.

"Second. When the suit is against an alien and a citizen of the state wherein it is brought, or is by a citizen of such state against a citizen of the same, and a citizen of another state, it may be so removed, as against said alien or citizen of another state, upon the petition of such defendants, filed at any time before the trial or final hearing of the cause, if, so far as it relates to him, it is brought for the purpose of restraining or enjoining him, or is a suit in which there can be a final determination of the controversy, so far as concerns him, without the presence of the other defendants as parties in the cause. But such removal shall not take away or prejudice the right of the plaintiff to proceed at the same time with the suit in the state court, as against the other defendants.

"Third. When a suit is between a citizen of the state in which it is brought and a citizen of another state, it may be so removed on the petition of the latter, whether he be plaintiff or defendant, filed at any time before trial or final hearing of the suit, if, before or at the time of filing said petition, he makes and files in said

[1] Cowles v. Mercer County, 7 Wall. 118 (1868); 2 With. Sel. Corp. Cas. 1. There is a conclusive presumption that the members of a corporation are citizens of the state creating it. Lathrop v. Union Pac. R. Co., 1 McArthur, 234.

court an affidavit, stating that he has reason to believe and does believe that, from prejudice or local influence, he will not be able to obtain justice in such state court." [1]

Sec. 339. **Same continued.** — Under these provisions it is held, that as a corporation is a creature of the state creating it, and has no legal existence beyond the territory of the sovereignty by which it is created; that its domicile is within such territory; that a suit against a corporation by its corporate name is a suit against a citizen of the state creating it; and that for the purposes of original jurisdiction as well as the removal of causes from the state to the federal courts, under the act of congress made for that purpose, there is a conclusive presumption that the members of a corporation are citizens of that state. And it is further held, that nothing done by a corporation in regard to the place or manner of transacting its business, and no statutes of a state in which it transacts such business can deprive the corporation of its right and privilege when sued in a state foreign to the one in which it was created, to remove such action, in the manner prescribed by the statutes, from the state court to the circuit court of the proper district. But it is further held, that if the foreign corporation is joined with other defendants, who are residents of the state where the suit is brought, the suit cannot be removed under the foregoing statute, from the state to the federal courts, unless such residents are merely nominal parties; and that when the action is against the corporation and its officers, and no relief is prayed for as to such officers, that is not prayed for as against the corporation, and no relief is prayed for against any officer in his individual capacity, such officers are merely nominal parties, and the action may be removed.[2]

[1] Rev. Stat. U. S. (1874), § 639, p. 113.

[2] Hatch v. The Chicago, Rock Island & Pacific R. Co., 6 Blatchf. (C. C.) 105; Ward v. Arredondo, 1 Paine (C. C.), 410; Lathrop v. Union Pacific R. Co., 1 McArthur, 234; Bank of Augusta v. Earle, 13 Pet. 519; Ohio, etc., R. Co. v. Wheeler, 1 Black, 286; The Louisville, etc., R. Co. v. Letson, 2 How. 497; Marshall v. The Baltimore, etc., R. Co., 16 id. 314. The Covington Drawbridge Co. v. Shepherd, 20 id. 232; Wormley v. Wormley, 8 Wheat. 421; Carneal v. Banks, 10 id. 188; Pomeroy v. The New York, etc., R. Co., 4 Blatchf. (C. C.) 120; Hobbs v. The Manhattan Ins. Co., 56 Me. 417.

If the defendant files a proper petition for removal, it is a matter of right and the state court cannot prevent it. Gordon v. Longest, 16 Pet. 97; Carneal v. Banks, 10 Wheat. 188, where parties were made defendants to a suit in equity, who were citizens of the same state with the plaintiff, and there

SEC. 340. **Same continued.** — Where the declaration described the plaintiffs as an association of persons not incorporated, formed for the purpose of carrying on the banking business at Omaha, Nebraska, and who were engaged in such business at that place, and the defendants, as a foreign corporation, formed under and created by the laws of the state of New York, and the cause was transferred to the circuit court of the United States; on error, in the supreme court of the United States, it was held, that although there was no direct averment that the suit was between citizens of different states, still it was the necessary consequence of the facts stated that they were so; that the averment that the plaintiffs were a firm of natural persons, associated together at Omaha, and were engaged in the banking business at said place, is equivalent to saying they had their domicile there, as in this country people usually have their domicile where they do business; that this is especially true of persons who are engaged in a business requiring capital and involving risk, at a point remote from the great centers of trade and commerce. And it was further held that the citizenship of the defendant was sufficiently averred; that the obvious meaning of the allegation, that the defendant was a foreign corporation, formed under and created by the state of New York was, that the defendant was a citizen of that state; and that the averments were sufficient to show that the plaintiff and defendant were citizens of different states.

SEC. 341. **Same continued.** — The opinion of BLATCHFORD, J., in the case of *Hatch* v. *The Chicago, etc., R. Co.*,[1] furnishes a clear exposition of the law on this subject. He says: "It is settled, by the decisions of the supreme court, that a corporation can have no legal existence out of the bounds of the sovereignty by which it is created; that it exists only in the contemplation of

were defendants, citizens of another state, and it was held that the former might be dismissed as they were improperly made defendants, and that they could not properly affect the jurisdiction of the court as to the parties who were properly before it.

Where the cause of removal is complete, the power of the state court as to the cause is at an end. Hatch v. The Chicago, etc., R. Co., *supra*. See, also, Ward v. Arredondo, 1 Paine (C. C.), 410.

[1] 6 Blatchf. (C. C.) 105 (1868).

law, and by force of that law; that where that law ceases to operate the corporation can have no existence; and that it must dwell in the place of its creation. It is also settled, by like decisions, that a suit against a corporation in its corporate name must be regarded as a suit against citizens of the state which created it, the legal presumption being that its members are citizens of that state, the only state in which the corporate body has a legal existence; and the legal presumption, therefore, being, that a suit against the corporation in its corporate name is a suit against citizens of the state which created it, no averment or evidence to the contrary being admissible to withdraw the suit from any jurisdiction which the court of the United States would otherwise have over it. It follows, therefore, that for the purposes of jurisdiction by the courts of the United States, these suits, so far as they are suits against the company, are suits against citizens of the state which created the company." [1]

Sec. 342. **Rights in court under the national banking law.** — The act of congress of June 3, 1864,[2] relating to national banks, pro-

[1] Hatch v. Chicago, etc., R. Co., *supra*.

[2] The Revised Statutes of the United States (1874), tit. 62, chap. 1, provide as follows:

"Sec. 5133. Associations for carrying on the business of banking under this title may be formed by any number of natural persons not less, in any case, than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the comptroller of the currency, to be filed and preserved in his office.

"Sec. 5134. The persons uniting to form such an association shall, under their hands, make an organization certificate which shall specifically state:

"*First*. The name assumed by such association; which name shall be subject to the approval of the comptroller of the currency.

"*Second*. The place where its operations of discount and deposit are to be carried on, designating the state, territory or district, and the particular county and city, town or village.

"*Third*. The amount of capital stock and the number of shares into which the same is to be divided

"*Fourth*. The names and places of residence of the shareholders, and the number of shares held by each of them.

"*Fifth*. The fact that the certificate is made to enable such persons to avail themselves of the advantage of this title.

"Sec. 5135. The organization certificate shall be acknowledged before some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary, transmitted to the comptroller of the currency, who shall record and carefully preserve the same in his office.

"Sec. 5136. Upon duly making and filing articles of association and organization certificate the association shall become, as from the date of the execution of its organization certificate,

vides that corporations shall have power "to sue and be sued, complain and defend, in any court of law or equity, as fully as natural persons." It has been held that when a corporation organized under this act has been brought as suitor into a court which has

a body corporate, and as such, and in the name designated in the organization certificate it shall have power :

"*First.* To adopt and use a corporate seal.

"*Second.* To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchises become forfeited by some violation of law.

"*Third.* To make contracts.

"*Fourth.* To sue and be sued, complain and defend, in any court of law or equity, as fully as natural persons.

"*Fifth.* To elect or appoint directors, and by its board of directors, to appoint a president, vice-president, cashier, and other officers ; define their duties ; require bonds of them and fix the penalty thereof ; dismiss such officers, or any of them, at pleasure, and appoint others to fill their places.

"*Sixth.* To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred ; its directors elected or appointed ; its officers appointed ; its property transferred ; its general business conducted, and the privileges granted to it by law exercised and enjoyed.

"*Seventh.* To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking ; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidence of debt ; by receiving deposits ; by buying and selling exchange, coin and bullion ; by loaning money on personal security ; and by obtaining, issuing and circulating notes according to the provisions of this title.

"But no association shall transact any business, except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the comptroller of the currency to commence the business of banking.

"Sec. 5137. A national banking association may purchase, hold, and convey real estate for the following purposes, and for no others :

"*First.* Such as shall be necessary for its immediate accommodation in the transaction of its business.

"*Fourth.* Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due it.

"But no such association shall hold the possession of any real estate, under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

"Sec. 5138. No association shall be organized under this title with a less capital than $100,000, except that with a capital of not less than $50,000 it may, with the approval of the secretary of the treasury, be organized in any place the population of which does not exceed six thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a less capital than $100,000.

"Sec. 5139. The capital stock of each association shall be divided into shares of $100 each, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all the rights and liabilities of the prior holder of such shares ; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired.

"Sec. 5140. At least fifty per cent of the capital stock of every association shall be paid in before it shall be authorized to commence business ; and the remainder of the capital stock of such association shall be paid in in-

jurisdiction of the suit, it has the same *status*, in respect to its own rights or the rights of others against it, as a natural person; and that the presumption is that the members of a banking corporation organized under such act are citizens of the state in which such corporation is located, in all cases where jurisdiction of the court depends upon citizenship; and that the district court of the United States has jurisdiction of a suit brought against an inhabitant of the district by a national bank located in another state.

Sec. 343. **Same continued.** — In a recent case under this act, on the question of citizenship, Blackford, J., after referring to various provisions of the banking act, observes: "It is quite apparent from all these statutory provisions, that congress regards a national banking association as being located at the place specified in its organization certificate. If such place is a place in a state, the association is located in the state. It is indeed at but one place in the state; but when it is so located it is regarded as located in the state. The requirement that at least three-fourths of its directors of the association shall be residents, during their continuance in office, in the state in which the association is located, especially indicates an intention on the part of congress to regard the association as belonging to the state. * * * Where a corporation is created by competent authority — authority as competent, within a given state, to create such corporation and to locate it within such state, as is the state itself, and a location and *habitat*, within such state and not elsewhere, is given by the creating authority to such corporation, there is no reason why the legal presumption should not be, that the members of such corporation are citizens of such state, within the meaning of the second section of the third article of the constitution, and the eleventh section of the judicial act of 1789. The presumption in the case of a corporation created by a state is only arrived at by presuming the mem-

stallments of at least ten per centum each, on the whole amount of the capital, as frequently as one installment at the end of each succeeding month from the time it shall be authorized by the comptroller of the currency to commence business; and the payment of each installment shall be certified to the comptroller, under oath, by the president or cashier of the association."

bers of the corporation to be citizens of the United States, and to be residents in the state, and therefore, under the decision in *Gassies* v. *Ballon*,[1] citizens of the state."[2]

It seems, therefore, from the foregoing, that a corporation is a citizen of the state where it is created, in the sense in which it is used in that part of the constitution of the United States which refers to the judicial powers of her courts; and also in the statutes of the United States providing for the jurisdiction of the circuit courts, as well as the statutes providing for the removal of causes from a state court to the circuit court of the United States, of the district where the suit is instituted; and that the same doctrine as to citizenship applies under the statute relating to the national banking law.

SEC. 344. **Same continued.**—Where a corporation is created by the laws of one of the states of the United States, or under general laws provided therefor, or under the statutes of the United States, where, by the provisions of the statutes, they have a location within one of the states, this constitutes the corporation a citizen of the state where created, within the meaning of the constitution and the judiciary act, and the statutes providing for the removal of a suit from the state court to the circuit court of the United States; and it will be conclusively presumed that the members of such a corporation are citizens of the state where such corporation is located.[3]

SEC. 345. **Parties to a suit.**—It is evident that where a corporation is a party to a suit the other parties should usually be the same as though all were natural persons. But neither the bondholders nor the stockholders of a corporation are necessary parties to a creditor's bill seeking to subject assets of the corporation to

[1] 6 Pet. 761.

[2] Manufacturers' National Bank v. Baach, Blatchf.; 1 With. Corp. Cas. 93; Marshall v. Baltimore, etc., R. Co., 21 How. 314.

[3] The Commonwealth of Pennsylvania v. The Quicksilver Mining Co., 10 Wall. 553; The Insurance Companies v. The Commonwealth, 5 Bush, 68; Ducat v. The City of Chicago, 10 Wall. 410; S. C., 48 Ill. 172; The Liverpool Ins. Co. v. The Commonwealth of Mass., 10 Wall. 566 (1870); The State of Louisiana v. Fordick, 21 La Ann. 434. And it may bring suits in the courts of any other state. Park Bank v. Nichols, 4 Biss. 315; Insurance Company v. The C. D., Jr., 1 Woods, 72 (1874).

the payment of debts, where they are represented by other parties before the court.[1]

And where the property of a corporation was conveyed to trustees to secure the payment of debts, and it was sold without judicial proceedings, in the execution of a power attempted to be conferred by the terms of the deed, but which was invalid because of a statute requiring that all such sales should be made by proceedings in court, it was held, first, that the purchaser was answerable for the proceeds of the property; second, that the corporation was a necessary party to any proceeding for its recovery.[2] So, also, where two directors of a corporation instituted an action against the corporation and a preferred stockholder and another director, to prevent the preferred stockholder from suing the corporation for an accounting and for dividends, it was held that the plaintiff could not maintain the action; that the right to the relief sought could not be determined in the suit by the preferred stockholder; that the defendants were improperly joined, they having no community of interest; and that, if such action was maintainable at all, the corporation only could maintain it.[3]

Sec. 346. **Process.**—In considering the capacity and incident of a corporation to sue and be sued, it is proper also to notice the general principles relating to process, pleadings, and evidence in such suits. In relation to process it may be observed that, in modern practice, it is the same as though the parties were natural persons. The statutes of the various states generally, if not universally, provide what the original process shall contain, and how it shall be served, not only on natural persons but on copartnerships and corporations. And jurisdiction of the person is usually secured in case of a corporation, by the service of the process on

[1] The Chicago, etc., R. Co. v. Howard, 7 Wall. 392; S. C., 1 With. Corp. Cas. 1.

[2] Samuel v. Holladay, 1 Woolw. (C. C.) 400; S. C., 1 With. Corp. Cas. 139. In this case the court also held that where proceedings were instituted by the stockholders in behalf of themselves and all others who might come in and take part in the litigation, and it appeared that the bill had been pending six years without service on the corporation; that if the suit should be successful the property would be absorbed in the payment of debts, leaving nothing to be distributed among its stockholders, and that the interest of the plaintiffs, by reason of the small amount of stock held by them, was merely nominal, they would not order the cause to stand over for service on the corporation. Ib.

[3] Gould v. Thompson, 39 How. Pr. 5.

some officer in the same manner as though it were a natural person. Statutes usually provide that the original process against a private corporation may be served in the usual way of service, on the president or other officer, or on any general agent of such corporation, or upon some local agent of the corporation, within the jurisdiction of the court where the suit was brought; especially is the latter the case if the suit relates to matters growing out of or connected with the business of the office or agency.[1]

SEC. 347. **Pleadings.**— In relation to pleadings, also, they are generally required to be the same, in most if not all respects, as though the parties to the suit were natural persons, and the sufficiency of them must be adjudged as in ordinary cases between individuals. But in certain proceedings, owing to the peculiar character of the corporate body, and the extent or limit of the duties and powers of the corporation dependent upon the charter or act under which it is instituted, matters may be required to be pleaded that would have no pertinence except that a corporation was a party. Thus, in an action by a foreign corporation, for an alleged libel against it, on demurrer to the declaration, it was held that the charter should be set out at length, in order that it might be seen whether the publication was false in stating the mode in which it authorized the business of the company to be done, and which was the subject of the criticism which constituted the alleged libel.

On this question, Mr. Justice LAWRENCE, who delivered the opinion of the supreme court of Illinois, observed: "It would be clearly against public policy to treat as libelous an article which merely assumes that an insurance corporation proposes to do for its own advantage, or that of its stockholders, whatever its charter may expressly authorize it to do. If a charter is obtained by any

[1] Code of Iowa (1873), §§ 2611–2613. As to service upon an agent, under the statutes of Illinois (1853), see St. Louis, etc., R. Co. v. Dorsey, 47 Ill. 288.

It must appear, in order to sustain a default against a corporation, that service of the requisite process and papers was made upon some person occupying a relation to the corporation that they could legally serve upon such person. Oxford Iron Co. v. Spradley, 42 Ala. 24; Talladega Ins. Co. v. McCullough, id. 667.

And where the statute provided for service of original notice, in certain cases, upon an agent or clerk, it was held that a service made upon a baggage-master, or hack-master, would not be a good service. Richardson & Co. v. The Burlington, etc., R. Co., 8 Iowa, 260; 8 How. Pr. 308.

corporation which seeks to secure for its own emoluments the control of the money of individuals, it is proper to call the attention of the public to its provisions, and to take it for granted that the incorporation proposes to avail itself of whatever privileges, in dealing with the public, it has induced the legislature to bestow. A free criticism of the character of an insurance company, or of any other incorporation which claims the confidence of the public, and seeks the possession of its funds, is to be encouraged rather than repressed, as a means of public security ; and if an insurance company has procured a charter which authorizes it to pay an interest of thirty per cent per annum to its stockholders, before laying by a fund for the security of its policy-holders, we certainly cannot hold a publication libelous, merely because it assumes that the company will do for the profits of its stockholders, that which it has obtained an express power to do; and because it argues that a company, organized under such a charter, must necessarily be unworthy of public confidence. This brings us to the precise question upon this record, namely: Does the charter of this company authorize it to do what the publication says it proposes to do? If it does, the publication cannot be considered libelous. It would be merely a just criticism upon an objectionable charter, and a proper caution to the public against trusting its money to a corporation which has obtained a legislative right so to use that money as necessarily to make the public insecure. If the charter contains no such authority, and the company does not propose to do its business in that method, the publication may be libelous. Herein contains the fatal defect in the declaration. It nowhere purports to set out the charter, either in substance or in *haec verba*. * * * The plaintiff should have set out the charter at length, that the court might determine whether the publication was false in stating the mode in which it authorized the business of the company to be done. The declaration, it is true, has the usual formula, to the effect that the defendant falsely and maliciously wrote, published, etc., but in a case of this character it is not sufficient." [1]

Sec. 348. **Same continued.** — As a general rule, it is not necessary for a corporation plaintiff to set forth in its declaration the articles,

[1] The Hahnemannian Life Ins. Co. v. Beebe, 48 Ill. 87; S. C., 1 With. Corp. Cas. 420.

or act of incorporation, if it be a private one; it is sufficient to aver the fact and prove the same on the trial if it is controverted.[1]

SEC. 349. **When party is estopped to deny the corporate existence.**— When the action is brought by the corporation, on a contract executed by the defendant to it, the general rule is that the plaintiff need not aver or prove the corporate existence, and the defendant is estopped from denying it, in the absence of fraud on the part of the corporation.[2] But where there is fraud, on the part of the corporation, in obtaining the contract, the party contracting with it is not estopped from denying its corporate existence.[3] Thus, where a bill in chancery was filed to set aside a conveyance of real estate, alleged to have been obtained by fraud and misrepresentation of the corporation, it was held that with proper averments the fact whether said corporation ever had a corporate existence, so as to enable it in its corporate capacity and name to take and hold property, might be inquired into; that if a company professing to have a corporate existence, which it in fact does not possess, acquires property for a particular purpose in its corporate name, and conveys it to another, the sufficiency of such conveyance or transfer may be inquired into collaterally.[4] And where a party is estopped from denying the existence of the corporation, at the time he recognized it as such, if he denies its existence subsequently, he must show how it ceased to exist.[5] But

[1] Selma, etc., R. Co. v. Tipton, 5 Ala. 787; California Navigation Co. v. Wright, 6 Cal. 258; Frye v. Bank of Illinois, 10 Ill. 332; Spangler v. Indiana, etc., R. Co., 21 id. 276; Heaston v. Cincinnati, etc., R. Co., 16 Ind. 275; United States v. Haskins, 1 Johns. Cas. 133; Utica Bank v. Smalley, 2 Cow. 770; Dutchess Cotton Man. v. Davis, 14 Johns. 245; Bank of Michigan v. Williams, 5 Wend. 482; Grays v. Turnpike Co., 4 Rand. 578.

[2] Dutchess Cotton Manuf. Co. v. Davis, 14 Johns. 245; Hamtramck v. Edwardsville, 2 Mo. 169; Hughes v. Bank of Somerset, 5 Litt. (Ky.) 47; Searsburgh Turnpike Co. v. Cutler, 6 Vt. 315; Tar River Nav. Co. v. Neal, 3 Hawk. (N. C.) 520; Bennington Iron Co. v. Rutherford, 18 N. J. L. 105; Richardson v. St. Joseph's Iron Co., 5 Blackf. (Ind.) 146; Harrison v. Muskingum Manuf. Co., 4 id. 267; Zion Church v. St. Peter's Church, 5 Watts & S. 215; Lighte v. Everett Ins. Co., 5 Bosw. 716; Union Mut. Ins. Co. v. Osgood, 1 Duer, 707; Kennedy v. Cotton, 28 Barb. 59; Lafayette Ins. Co. v. Rogers, 30 id. 491; Phenix Bank v. Donnell, 41 id. 571; Acome v. Am. Min. Co., 11 How. Pr. 24; Shoe and Leather Bank v. Brown, 9 Abb. Pr. 218; Howe Machine Co. v. Snow, 32 Iowa, 433.

[3] Stoops v. Greensburgh, etc., R. Co., 10 Ind. 47; Ensey v. Cleveland, etc., R. Co., id. 178; Fort Wayne Turnpike Co. v. Deam, id. 563.

[4] Carey v. The Cincinnati, etc., R. Co., 5 Iowa, 357.

[5] Ensey v. Cleveland, etc., R. Co., 10 Ind. 178; Fort Wayne Turnpike Co. v. Deam, *supra*.

it is held that a contractor with a corporation is estopped from setting up a fraudulent organization of the corporation in defense of a suit brought by the company against him.[1]

SEC. 350. **When the corporation is estopped from denying its corporate existence.**— It is also a general doctrine, founded upon principles of justice and equity, that a corporation, dealing with others as such, is estopped from denying its corporate existence,[2] and this rule has become a matter of statutory regulation and adoption in various states.[3]

SEC. 351. **General denial.**— At common law it was well settled that if, in a suit brought by a corporation, the defendant plead to the merits, he admitted the capacity of the defendant to sue; and that if he merely made a general issue, it dispensed with the necessity of all proof of corporate existence and of their right to sue.[4]

[1] State v. Bailey, 16 Ind. 46; Jones v. Cincinnati, etc., R. Co., 14 id. 89; Hubbard v. Chappel, id. 601; Evansville, etc., R. Co. v. Evansville, 15 id. 395; Meikel v. German Savings, etc., Soc., 16 id. 181; Brownlee v. Ohio, etc., R. Co., 18 id. 68; Commissioners v. Bright, id. 93; Washington College v. Duke, 14 Iowa, 14; Hamtramck v. Bank of Edwardsville, 2 Mo. 169; Camp v. Byrne, 41 id. 525; Congregational Soc. v. Perry, 6 N. H. 164; Cochran v. Arnold, 58 Penn. St. 399.

Neither can it be shown in defense of an action by a corporation that it has forfeited its rights by misuser or nonuser, as it is the privilege of the state only in such cases to secure a judgment of forfeiture by direct proceedings for that purpose. Cochran v. Arnold, 58 Penn. St. 399; Center Turnpike Co. v. McConaby, 16 S. & R. 140; Lehigh Br. Co. v. Lehigh Coal Co., 4 Rawle, 9; Chester Glass Co. v. Dewey, 16 Mass. 102; Searsborough Turnpike Co. v. Cutler, 6 Vt. 315; Union Branch R. Co. v. East Tenn. R. Co., 14 Ga. 327; Cleveland R. Co. v. Erie, 27 Penn. St. 380.

And a payment of a portion of subscription to the stock of a corporation is sufficient to estop the subscribers from denying the corporate existence in an action to recover the balance. Maltby v. North Western R. Co., 16 Md. 422; Black River R. Co. v. Clarke, 25 N. Y. 208.

[2] Dooley v. Cheshire Glass Co., 15 Gray, 494; Merrick v. Reynolds Engine Co., 101 Mass. 385.

[3] The Code of Iowa, tit. 9, chap. I, § 1089, provides: "No body of men acting as a corporation under the provisions of this chapter [relating to corporations] shall be permitted to set up the want of a legal organization as a defense to an action against them as a corporation; nor shall any person sued on a contract made with such a corporation, or sued for an injury to its property, or a wrong done to its interests, be permitted to set up a want of such legal organization in his defense."

[4] Alderman v. Finley, 10 Ark. 423; Teaton v. Lynn, 5 Pet. 231; Mississippi, etc., R. Co. v. Cross, 20 Ark. 443; Phenix Bank v. Curtis, 14 Conn. 437; Railsback v. Liberty, etc., Turnpike Co., 2 Ind. 656; Jones v. Cincinnati, etc., R. Co., 14 id. 89; Hardy v. Merriweather, id. 203; Hubbard v. Chappel, id. 601; Harrison v. Martinsville, etc., R. Co., 16 id. 505; Carpenter v. Mercantile Bank, 17 id. 253; Commissioners v. Bright, 18 id. 93; Penobscot Boom Co. v. Lamson, 16 Me. 224; Savage Manuf. Co. v. Armstrong, 17 id. 34; Putnam Free School v. Fisher, 30 id.

This was, however, held not to apply in case of a foreign corporation.[1]

SEC. 352. **Proof of incorporation.** — Where, in other cases, it becomes necessary to prove an incorporation this may be done by an exemplification of the act under which it was constituted or authorized, and proof of the acceptance of its provisions. This proof of acceptance may be shown by the direct action of the corporators, as shown by the records of the corporation, or by acts of user under it. We have already considered what acts of corporations will be considered as an acceptance of a charter or act of incorporation.[2] General statutes relating to incorporation may be proved like any other public and general statutes published by authority of the legislature, and *prima facie*, it is sufficient to show that the book containing such statutes purports to have been printed by public authority; for it is almost if not the universal course for the legislature of the various States as well as the congress of the United States, to have the laws and resolutions of each session of them printed by authorized parties; and it is also usually provided by them, that certain competent persons shall compare the copies to be published as authority, with the original enrolled acts of the legislature or of congress, as the case may be, and it is but reasonable that general laws and statutes so purporting to be printed should, at least, be received as *prima facie* evidence that they are authorized and correct.

SEC. 353. **Same continued.** — It is proper to say that the private corporations in this country are almost invariably created under such general laws, and that under the provisions of the same it would ordinarily be necessary only to prove that the corporators had complied with the statutes in that respect. This may generally be shown by the original articles of incorporation, signed by the

523; Roxbury v. Huston, 37 id. 42; People v. Turnpike and Bridge Co., 20 Barb. 518; Orono v. Wedgewood, 44 Me. 49; Rheem v. Naugatuck Wheel Co., 33 Penn. St. 356; Bank of the Metropolis v. Orme, 3 Gill. 443; Whittingon v. Farmers' Bank, 5 Harr. & J. 489; Methodist Episcopal Church of Cincinnati v. Wood, 5 Ohio, 286.

[1] Henriques v. Dutch W. I. Co., 2 Ld. Raym. 1535; School District, etc., v. Blaisdell, 6 id. 198. See, also, Lewis v. Bank of Ky., 12 Ohio, 132; United States Bank v. Stearns, 15 Wend. 314; Bank of Mich. v. Williams, 5 id. 482.

[2] See *ante*, § 28 *et seq.*

original persons desiring to organize a corporation, and which is usually required to be filed and recorded in some one or more public offices, or by a copy or transcript of the same duly authenticated by the proper officer, having charge of the records of the original articles or certificate of incorporation.[1]

Sec. 354. **Corporate records.** — The organization of a corporation is of course a matter which may be proved by its records.[2] The acts of a corporation may, as we have seen, furnish evidence of acceptance of a corporate charter, or the provisions of a general act for incorporating, and the intention in this respect, as well as the positive and direct acceptance by the will of the corporation, may be most satisfactorily shown by its records, for neither the private views nor the public declarations of individual mem-

[1] Printed copies of legislative acts and of reports of the decisions of the courts, purporting to be published by authority, are sufficient *prima facie* evidence of the matters found therein, and that the publication is authorized. Young v. Bank of Alexandria, 4 Cranch, 388; Biddis v. James, 6 Binn. 321; Eld v. Gorham, 20 Conn. 8; Watkins v. Holman, 16 Pet. 25. Acts of incorporation were by the statutes of Massachusetts to be deemed public statutes, and may be given in evidence without specially pleading the same. Rev. Stats., chap. 2, § 3. And in Ohio it is enacted that in pleading a private statute, or a right derived therefrom, it shall be sufficient to refer to the statute by its title and the day of its passage, and the court shall thereupon take judicial notice of the same. Rev. Stat. by Curwin (1854), vol. 3, p. 1956. The acts printed by the king's printers are always good evidence to a jury, though they may not be good evidence upon an issue of *nul tiel record*. Anon., 2 Seld. 566, opinion by Holt, C. J. The laws revised and adopted by the territorial legislature of Michigan in 1827, were the statutes previously printed. It was held that the printed book containing these statutes was the best evidence of what the statute was, and that the original record of the statutes was not admissible in evidence to show that the revision was incorrect, especially where the alleged error is not discovered for a long time, and the statute, as printed, has been treated and considered as the actual law. Pease v. Peck, 18 How. (U. S.) 595.

An act of congress, approved June 20, 1874, providing for the publication of the Revised Statutes and the laws of the United States, is as follows:

"Sec. 2. That the secretary of state is hereby charged with the duty of causing to be prepared for printing, publication and distribution, the Revised Statutes of the United States, enacted at this present session of congress; that he shall cause to be completed the head-notes of the several titles and chapters, and the marginal notes referring to the statutes from which each section was compiled and repealed by said revision, and references to the decisions of the courts of the United States, explaining or expounding the same, and such decisions of the state courts as he may deem expedient, with a full and complete index to the same. And when the same shall be completed, the said secretary shall duly certify the same under the seal of the United States, and when printed and promulgated, as hereinafter provided, the printed volume shall be legal evidence of the laws and treaties therein contained in all courts of the United States and of the several states and territories."

[2] Duke v. Cahawba Nav. Co., 10 Ala. 82.

bers of the corporation can, as a general rule, furnish evidence of this fact or of any corporate act.[1] But the unrecorded acts of a corporation, or of the directors, may sometimes be proved by parol, unless otherwise provided in the charter.[2] And omissions in the corporate minutes may also be supplied by parol testimony.[3] And where, on a proceeding for a *mandamus* to compel a defendant to deliver up to the relators certain account books of the corporators, it appeared that the defendant had acted as secretary of the relators about two months; that he had in his possession books, in one of which he had written the minutes of the proceedings of the meeting of the corporators and of the stockholders and directors, and in another were contained the signatures of the subscribers to the capital and the receipts of the relators, but that each of these books was purchased with the defendant's own money, it was held that the books were the property of the relators, and were so as soon as the defendant, as secretary, began to put in them the records of the relators; that the defendant's possession was the possession of the company, and that when he ceased to be secretary he had no right to withhold the books from the relators.[4] And neither the bond nor stockholders of a corporation are necessary parties to a creditor's bill seeking to subject assets to the payment of debts, where they are represented by the parties before the court.[5]

SEC. 355. **Same continued.** — It is evident that the records of corporations may be important, many times, as evidence both for and against them. On the subject of such evidence, Prof. Greenleaf remarks: "There are other records which partake both of a public and private character, and are treated as one or the other, according to the relation in which the applicant stands to them. Thus, the books of a corporation are public with respect to its members, but private with respect to strangers.[6] In regard to its members, a rule for inspection of the writings of corporations will be granted,

[1] Bartlett v. Kinsley, 15 Conn. 327.
[2] Langsdale v. Bonton, 12 Ind. 467.
[3] Vicksburgh Co. v. Ouchita, 11 La. Ann. 649.
[4] State v. Goll, 32 N. J. L. 285.
[5] The Chicago, etc., R. Co. v. Howard, 7 Wall. 392; Bagshaw v. Railway Co., 7 Hare, 131; Holyoke Bank v. Manufacturing Co., 9 Cush. 576, Hall v. Railroad, 21 L. R. 138; 1 Redf. on Railways, 578; Boon v. Chiles, 8 Pet. 532; Story v. Livingston, 13 id. 359.
[6] Greenleaf on Ev. 116.

of course, on their application, where such inspection is shown to be necessary in regard to some particular matter in dispute, or where the granting of it is necessary to prevent the applicant from suffering injury, or to enable him to perform his duties; and the inspection will then be granted, only so far as is shown to be essential to that end.[1] But a stranger has no right to such rule, and it will not be granted, even where he is defendant in a suit brought by a corporation."[2] In this class of records are enumerated "parish books, transfer books of the East India Company, public lottery books, the books of incorporated banking companies, a bishop's registry of presentations, and some others of the like kind."[3]

Sec. 356. **Stockholder's rights in equity.** — To warrant a stockholder to institute a suit in equity in his own name, against a wrong-doer whose acts operate to the prejudice of the interests of the stockholders, such as diminishing their dividends and lessening the value of their stock, application must first have been made to the directors of the company to institute a suit in its own name, and they must have refused. Such refusal is essential to give the stockholder any standing in court, in case the charter confers upon the directors the general management of the business of the company.[4] But we shall, in the following chapter, consider the subjects of suits in equity by and against corporations and other parties.

[1] Rex v. Merchant Tailors' Co., 2 B. & Ald. 115; The People v. Throop, 12 Wend. 183.

[2] 1 Greenl. Ev., § 474. See, also, Bank of Utica v. Hillard, 5 Cow. 419; S. C., 6 id. 62; Imperial Gas Co. v. Clarke, 7 Bing. 95; Rex v. Justice of Buckingham, 8 B. & C. 375.

[3] Geery v. Hopkins, 2 Ld. Raym. 851; S. C., 7 Mod. 129; Shelling v. Farmer, 1 Str. 646; Brace v. Ormond, 1 Merv. 409; Union Bank v. Knapp, 3 Pick. 96; McKavlin v. Bresslin, 8 Gray, 177; Mortimer v. McCallan, 6 M. & W. 58; Rex v. Bp. of Ely, 8 B. & C. 112; Finch v. Same, 2 M. & Ry. 127.

[4] Memphis v. Dean, 8 Wall. 64; 18 How. (U. S.) 331.

CHAPTER XIV.

SUITS IN EQUITY BY AND AGAINST CORPORATIONS AND DIRECTORS.

SEC. 357. Remedy in equity by and against corporations.
SEC. 358. Rights, liabilities and remedies of various parties.
SEC. 359. Rights and liabilities of, and remedies against, directors.
SEC. 360. Same continued.
SEC. 361. Same continued.
SEC. 362. Same continued.
SEC. 363. Stockholders' liability in equity.
SEC. 364. Rights of stockholders to restrain acts *ultra vires*.
SEC. 365. Creditors' rights in equity for a misappropriation of the corporate fund.
SEC. 366. Same continued.
SEC. 367. Doctrine, generally, as to parties in equitable proceedings.
SEC. 368. Same continued.
SEC. 369. Same continued.
SEC. 370. Where an injunction will be granted.
SEC. 371. Where an injunction will not be granted.
SEC. 372. Specific performance — right of way.

SEC. 357. **Remedy in equity by and against corporations.** — We have already treated of suits at law by and against private corporations as a common-law incident, and shown where, under our laws and the federal constitution, the suits may be brought; the rights of corporations as citizens; their rights in court under the national banking law; the proper parties to such suits; and referred to the subject of parties, process, pleadings, evidence, etc., in connection therewith. But we propose in this chapter to discuss those remedies in equity which parties may possess, growing out of their relations with corporations. It will be evident that the mere legal abstract rights of parties, as frequently stated in the books, would be of little consequence were it not for provisions made to secure the enforcement of them. Hence the maxim, "that wherever the law gives any thing to a person it also gives a remedy for an injury thereto; *lex semper debet remedium;* that there is no wrong without a remedy; *ubi jus ibi remedium.* If a person has a right, he must have a means to vindicate and maintain it, and a remedy if he is injured in the exercise and enjoyment of it."

Sec. 358. **Rights, liabilities and remedies of various parties.** — From what has already been said it will be apparent that not only the corporation has a right to sue and is subject to suit by members and other persons, whose rights may be infringed by it, but also that other parties related to the corporation as director, stockholder, bondholder, trustee, or creditor may have rights and be subject to liabilities growing out of the corporate relation, which requires a particular consideration.

Sec. 359. **Rights and liabilities of, and remedies against, directors.** — It must be apparent that one of the most important relations with private corporations for pecuniary profit is that of directors. They usually have, under the constating instruments, full power in most, if not all respects, to act for, if not as, the corporate body, and to control and manage all the corporate business. Hence, this authority cannot be controlled, nor their rights in this respect infringed by the corporation. If the constating instruments have conferred on the directors the power to control and manage the corporate affairs, the corporate body have no right to interfere with this management, nor can a majority of the corporators require the board of directors to act in matters left to their discretion, contrary to their judgment.[1]

On the other hand, the directors are the primary agents of the corporation, and, as we have already noticed,[2] the relation of trustee and *cestui que trust* may, and usually does, exist between them on the stock and bondholders and creditors, and the fiduciary character of this relation requires of them the highest and most scrupulous good faith in their transactions for the corporation and these stock and bondholders and creditors. "The company have a right to the services of their directors whom they remunerate by considerable payments; they have a right to their entire services; they have a right to the voice of every director, and to the advice of every director in giving his opinion upon matters which are brought before the board for consideration, and the general rule that no trustee can derive any benefit from dealing with those funds of which he is a trustee applies with still greater

[1] Dana v. Bank of the U. S., 5 W. & S 247; Commonwealth v. St. Mary's Church, 6 S. & R. 508; Conro v. Port Henry Iron Co., 12 Barb. 27; State v. Bank of La., 6 La. 745.

[2] See chap. 6.

force to the state of things in which the interest of the trustee deprives the company of the benefit of his advice and assistance." [1]

SEC. 360. **Same continued.** — One of the most effectual remedies in such cases is by injunction to restrain the unlawful acts of the directors, or in case of the proposed execution of a contract *ultra vires*, to restrain the execution of the same by the directors as the agents of the corporation. A shareholder may restrain any mismanagement on the part of directors of a corporation as for a

[1] Lord Chancellor HATHERLEY in Imperial, etc., Association v. Coleman, L. R., 6 Ch. 567. See, also, Flint, etc., R. Co. v. Dewey, 14 Mich. 477; *ante*, § 169 *et seq.*; Dodge v. Woolsey, 18 How. (U. S.) 331. In the case last cited the plaintiff was a stockholder in a bank incorporated and doing business in the state of Ohio. The defendant, a collector, was about to collect by distress certain illegal taxes from the bank, and the plaintiff requested the bank to take legal steps to prevent this proceeding, which it refused to do. The supreme court of the United States on these facts held that the plaintiff could maintain his suit against the collector for an injunction, the bank being made a party.

In Samuel v. Holladay, 1 Woolw. (U. S. C. C.) 400, Justice MILLER, in commenting on this decision, observes: "I think I am correct in stating that the propositions supposed by the court to be established by this examination may be stated thus:

"1. That in the case of an incorporated company with a capital stock divided into shares and held by individuals the corporation and the shareholders are distinct legal persons, and can sue and be sued by each other.

"2. When the directors of a corporation have misapplied a portion of its funds to which a shareholder has a distinct right, as, for instance, a dividend, he may in an action recover the amount misapplied, and when such misapplication has not been effected, but is threatened, he may, by bill in equity for an injunction, prevent it.

"3. When a corporation or its rights of property are threatened with an injury of such a nature as the court will enjoin, but it refuses to take any legal steps to protect itself, a stockholder may maintain a bill in equity against the party threatening the mischief and the corporation, to restrain by injunction the commission of the act, in order thereby to protect his interest from immediate danger.

"But no case is cited, nor does any dictum in the opinion of the court go to the length of asserting, that when a corporation has been injured by a tort or a breach of a contract, or has any right of action, legal or equitable, against a party, an individual shareholder can come into court and prosecute that cause of action because the corporation fails or refuses so to do. * * *

"Again, the court says, that the jurisdiction at the instance of a shareholder is to apply preventive remedies, by injunction, to restrain those who administer the affairs of the corporation from doing acts which would amount to a violation of the charter, etc. It also extends to inquiring concerning, and enjoining, as the case may require, individuals, in whatever character they may assume to act, from prosecuting any course of conduct which is in violation of a corporate franchise, or in denial of a right growing out of it, when, for the injury which will result, there is no adequate remedy at law. We see here, that where other parties are concerned, the jurisdiction is limited to cases in which the preventive remedies are efficient for the protection of rights endangered by the neglect of the directors, and the threatened aggressions of others. It would be a doctrine attended with very serious consequences if every individual shareholder, assuming the place of the corporation, could decide for it when actions should be brought to vindicate its supposed right."

misappropriation of the corporate funds.[1] And he may commence an action in equity for himself, and all others having a common interest with him, to restrain unlawful acts of the directors by injunction, or to require such parties to account for funds of such corporation, which have been misappropriated by such directors to their own use, even though such action may be opposed by all the other stockholders.[2] For although the general doctrine is that the corporation is the proper party to institute a suit for an injury to corporate rights, and to protect the stockholders, yet where the corporation refuses to sue, and the interests of a stockholder require it, or where the wrong is done by the directors, who are the primary agents, and may in some cases be considered, so far as their acts are concerned, as the corporation itself, or at least as having control of the corporate interests, a stockholder may, in case of their refusal to act, or in some cases without such refusal, as we shall hereafter notice, institute a suit on behalf of himself and of all other stockholders, where the protection of their rights require it, but in which case it would usually be proper, if not necessary, to make the corporation itself a defendant.[3]

[1] Kean v. Johnson, 1 Stockt. 401; Simpson v. Westminster, etc., R. Co., 8 H. L. 717; Ernest v. Nicholls, 6 id. 401.

[2] On this subject it is observed by the court in Dodge v. Woolsey, 18 How. (U. S.) 331, as follows: "It is now no longer doubted, either in England or the United States, that courts of equity in both have a jurisdiction over corporations, at the instance of one or more of their members, to apply preventive remedies by injunction, to restrain those who administer them from doing acts which would amount to a violation of charters, or to prevent any misapplication of their capitals or profits, which might result in lessening the dividends of stockholders or the value of their shares; as either may be practiced by the franchises of a corporation, if the acts intended to be done create what is in the law denominated a breach of trust, and the jurisdiction extends to inquiry into and to enjoin, as the case may require, any proceedings by individuals, in whatever character they may profess to act, if the subject of complaint is an implied violation of a corporate franchise, or the denial of a right growing out of it, for which there is not an adequate remedy at law." See, also, Davenport v. Dower, 18 Wall. 626; Hersey v. Veazie, 24 Me. 9; Smith v. Hurd, 12 Metc. 371; Allen v. Curtis, 26 Conn. 456; Western R. Co. v. Nolan, 48 N. Y. 513; March v. Eastern R. Co., 40 N. H. 548; Same v. Same, 43 id. 515; Lauman v. Lebanon, 30 Penn. St. 46.

[2] See Dodge v. Woolsey, 18 How. (U. S.) 331; Samuel v. Holladay, 1 Woolw. 400; Heath v. Erie R. Co., 8 Blatchf. 347; Brewer v. Proprietors, etc., 104 Mass. 378; Brown v. Vandyke, 9 N. J. Eq. 795; Butts v. Woods, 37 N. Y. 317; Green's Brice's Ultra Vires, 183, where it is said: "They — the members complaining — cannot bring a suit either individually or as a class, or in the name of some one or more on behalf of themselves, etc., unless, indeed the corporation — that is to say,

SEC. 361. **Same continued.** — The protection of the rights of shareholders in incorporated companies against the improper and illegal action of other shareholders, or of the officers of the company, is a favorite branch of the jurisdiction of equity by injunction. And it may be asserted as a general rule that courts of equity will enjoin, on behalf of the stockholders of an incorporated company, any improper alienation or disposition of the corporate property for other than corporate purposes, and will restrain the commission of acts which are contrary to law and tend to the destruction of the franchises, as well as the improper management of the business of the company, or a wrongful diversion of its funds. And in such a case equity will grant relief at the suit of a single stockholder.[1]

majority — are acting fraudulently toward the members complained, by refusing to the institute the necessary proceedings." Citing Atwood v. Merryweather, L. R., 5 Eq. 464, n.

[1] Kean v. Johnson, 1 Stockt. 401; Manderson v. Commercial Bank, etc., 28 Penn. St. 379; Sears v. Hotchkiss, 25 Conn. 171; Bagshaw v. Eastern, etc., R. Co., 7 Hare, 114; Colman v. Same, 10 Beav. 1; Central, etc., R. Co. v. Collins, 40 Ga. 582; Simpson v. Westminster, etc., 8 H. L. 717; Gifford v. New Jersey, etc., 2 Stockt. 171.

It was held in Heath v. Erie R. Co., 8 Blatchf. 347, that where the acts complained of are *ultra vires*, application to and a refusal of the directors to institute a suit is not essential in order to authorize a suit by a stockholder. In this case it is said: "Now so far as the bill sets out acts *ultra vires*, in issuing stock, and breaches of trust, which are frauds on the stockholders, such acts and breaches of trust are beyond the power of the corporation or its directors to affirm, or sanction, or make good; and in such case, the authorities agree that the reason for the rule for an application to the corporation, or its board of directors, to bring the suit does not exist. Such reason is, that while the stockholder is prosecuting his suit, the corporation, through its board of directors, may affirm and make good the acts complained of. But the rule ceases when the reason ceases."

In French v. Gifford, 30 Iowa, 148, DAY, J., observes: "The doctrine best sustained by authority, and most in consonance with reason and justice, seems to be, that courts of equity, aside from statutory provisions, do not exercise a jurisdiction over a corporation as over a partnership, to dissolve it and distribute its assets; but that it will afford a stockholder relief from the malfeasance of those intrusted with the management of the corporate business."

Again, in Wright v. Oroville M. Co., 40 Cal. 20, the court say: "The corporate authority is considered to have been conferred by the stockholders upon the trust and confidence that it will be exerted at least with a view to advance the interest of the stockholders, and not with a purpose to injure and destroy that interest; and it is settled that courts of equity in this country will, at the instance of a stockholder, control a corporation and its officers, and restrain them from doing acts even within the scope of corporate authority, if such acts, when done, would, under the particular circumstances, amount to a breach of the very trust upon which, as we have seen, the authority itself has been conferred."

Sec. 362. **Same continued.** — In case, also, of an attempt on the part of the majority of the stockholders, some of whom are directors, to unlawfully divest the corporation of its funds, or to fraudulently mismanage the business, a minority or undoubtedly a single stockholder would be entitled to an injunction to prevent the same, provided he is diligent in the assertion of the right.[1] And it seems now generally conceded, both in this country and in England, that any stockholder is entitled to an injunction to prevent a violation of a corporate franchise; and that he may also maintain a bill in equity against the directors, and compel the company to refund any of the profits improperly applied.[2]

Sec. 363. **Stockholder's liability in equity.** — We have already noticed that the stockholders of a corporation are liable in equity to account for dividends received on shares of capital stock, where creditors remain unpaid.[3] The doctrine on this subject now universally recognized is, that the stockholders are not entitled to dividends of profits upon the capital stock, where there are existing creditors of the corporation; and that such creditors may, in equity, pursue the consideration in the hands of the stockholders, and compel them to contribute *pro rata* toward the payment of the claims of creditors, out of the money or property so received.[4]

Sec. 364. **Right of stockholders to restrain acts ultra vires.** — The right of stockholders to restrain, not only the directors, but the corporation as a body, from acts *ultra vires* is generally recognized. For although either the corporation or body of directors may, unless restrained by the constating instruments, manage the affairs of the corporation as they please, so long as they act *bona fide*, and within the powers conferred upon them, still, if they

[1] Manderson v. Commercial, etc., 28 Penn. St. 379; Sears v. Hotchkiss, 25 Conn. 171, where it was held that the fact that a remedy at law exists by an action on behalf of the corporation or of the aggrieved stockholders, against the wrong-doers, constitutes no bar to an injunction in such a case.

[2] Dodge v. Woolsey, 18 How. (U. S.) 331; Samuel v. Holladay, 1 Woolw. 400. See, also, Walker v. Devereaux, 4 Paige, 229.

[3] Story's Eq. Jur. (9th ed.), § 1252; Mumma v. Potomac Co., 8 Pet. 286; Wood v. Dummer, 3 Mason, 308; Vose v. Grant, 15 Mass. 522; Spear v. Grant, 16 id. 14; Curran v. Arkansas, 15 How. (U. S.) 307; Railroad Company v. Howard, 7 Wall. 392.

attempt to exceed such powers, they may be restrained at the suit of a stockholder or creditor.[1]

Thus where the officers of a bank do acts contrary to law, and especially if it endangers the rights of the corporation under the charter; or, where the majority of the stockholders attempt to fraudulently mismanage the business or divert the funds from the legitimate purposes for which the corporation was created, a stockholder may ask the aid of a court of equity and enjoin such acts.[2] As to every act which is *ultra vires*, any stockholder has a right to restrain and to prevent a repetition of it, though every other member may be arrayed against him.[3]

"It is a settled rule of equity law," observes Mr. Redfield, "that a majority of the shareholders in a joint-stock corporation may maintain a suit to restrain the directors of a company, or a majority of the shareholders, from entering into a stipulation whereby the business of the company is changed and directed into channels and enterprises wholly diverse from those originally contemplated and entered upon, and from which their emoluments had been derived. But the court will not interfere to enjoin the majority of the shareholders from applying surplus funds in the hands of the corporation to an extension of the business within its powers, because a minority dissent from such extension. So, also, the court will not enjoin the minority of the shareholders from extending the business of the corporation to kindred enterprises, beyond those contemplated in the charter, but sanctioned by express legislative grant, and the vote of a majority of the shareholders."[4]

[1] Kerngham v. Williams, L. R., 6 Eq. 228; Brice's Ultra Vires, 215; Attorney-General v. Eastlake, 11 Hare, 205; Same v. Norwich, etc., 16 Sim. 225; 21 L. J. Ch. 141; Zabriskie v. Cleveland, etc., R. Co., 23 How. 381; Memphis v. Dean, 8 Wall. 64; Belmont v. Erie R. Co., 52 Barb. 637; Bliss v. Anderson, 31 Ala. (N. S.) 613; Kean v. Johnson, 9 N. J. Eq. 401; Black v. Delaware, etc., R. Co., 22 id. 130; S. C., 9 id. 455; Zabriskie v. Hackensack, etc., R. Co., 3 id. 178, Brice's Ultra Vires, 79–83, and notes; Balfour v. Ernest, 5 C. B. (N. S.) 601; 28 L. J. C. P. 170.

[2] Mayor, etc., v. Groshon, 30 Md. 436; Colman v. Eastern, etc., R. Co., 10 Beav. 1; Salomons v. Laing, 12 id. 339; Fish v. Chicago, etc., R. Co., 53 Barb. 513; Simpson v. Denison, 10 Hare, 62; Munt v. Shrewsbury, etc., 13 Beav. 1; Stevens v. South, etc., R. Co., id. 49.

[3] Brice's Ultra Vires, 593; Hoole v. Great W. R. Co., L. R., 3 Ch. 262; Menier v. Hooper's Tel. Works, L. R., 9 Ch. 350; Bird v. Bird's Patent, etc., S. Co., id. 358. See, also, Allen v. Curtis, 26 Conn. 456; McAleer v. McMurray, 58 Penn. St. 126.

[4] 2 Redf. on Rail., § 211, p. 9. See, also, Kean v. Johnson, 9 N. J. Eq. 401; March v. Eastern R. Co., 40 N. H. 548;

Sec. 365. **Creditor's rights in equity for misappropriation of corporate funds.** — It is a familiar principle in equity, to which we have already referred, that the property of a corporation is held in trust

Pratt v. Pratt, 33 Conn. 446; Durfee v. Old Colony & F. R.Co., 5 Allen, 230.

In Bissell v. The Michigan, etc., R. Co., 22 N. Y. 258, Selden, J., after referring to the two classes of cases of *ultra vires*, viz.: where the act is in excess of the corporate powers, and where it is in excess of the power of the agent, observes as follows:

"In all the cases belonging to the first class, the object of the action has been to protect the private rights of the shareholders; upon the ground that the action of the directors sought to be restrained would, if permitted, be a breach of trust. It would no doubt be a bar to any relief upon this ground, if it appeared that the parties seeking such relief had themselves assented to what the directors were about to do. They clearly could not be entitled, for their own sake, to protection against acts which they had themselves authorized. But the courts, in cases of this kind, have uniformly, and no doubt properly, acted upon the presumption that the shareholders had not assented to a violation of the charter, and have interfered, if at all, for the purpose of protecting them from a breach of trust on the part of the directors.

"Still it has been repeatedly said, even in cases of this class, that there was a question of public policy involved, which would be sufficient of itself to induce the courts to interfere. The case of Coleman v. The Eastern Counties Railway Company, 10 Beav. 1, decided in 1846, was one of this class. It was an equity suit brought by a shareholder in behalf of himself and the other shareholders, against the corporation and its directors, to prevent the latter from entering into a certain agreement with the Harwich Steam Packet Company. The bill prayed for a declaration that it would be a breach of trust on the part of the directors to make the proposed contract, and for an injunction. Relief was granted. Lord Langdale, before whom the case was heard, speaking of the extensive powers of railway companies, said: 'We are to look upon their powers as given to them in consideration of a benefit, which, notwithstanding all other sacrifices, is on the whole hoped to be attained *by the public*.' Again he says: 'In the absence of legal decisions, I look upon the acquiescence of shareholders, in these circumstances, in these transactions, as affording no ground whatever for the presumption that they may be, in themselves, legal.' Here, then, in one of the earliest cases on the subject, in the English courts, we have the very doctrine for which I contend, distinctly recognized and asserted, viz., that the object of every grant of corporate powers is to obtain a *public* benefit; and that the powers granted are the consideration which the *public* pays for the benefit received or expected; and we also have the inevitable consequence stated, that every excess of power by the corporation is *illegal* although acquiesced in by every shareholder.

"Three years afterward the case of Cohen v. Wilkinson, 12 Beav. 125; 13 Jurist, 641, came before the same judge. The complainant was a shareholder in the Direct Portsmouth Railway Company, and the object of the suit was to restrain the directors from proceeding to construct a portion only of the road authorized by the charter, without any preparation or intention to construct the whole. The judge said: 'If it were established that the companies of this sort had authority, without a view to the whole, or for the purpose of performing the whole, to complete such part only as they please, or are able, of that which has been called their *contract or bargain with the public*, I think the consequences would be very dangerous to the *public* and to the shareholders, and probably productive of very extensive deception and fraud.' In a similar case which arose shortly afterward, viz., Salomons v. Laing, 12 Beav. 339, Lord Langdale said: 'Any application of, or dealing with, the capital, or any funds or money of the company, which may come under the control or management of the directors, or governing body of

for the payment of its debts, and that creditors may pursue it in case of a fraudulent transfer, into the hands of all persons, except those of *bona fide* purchasers: that directors have no right to

the company, in any manner *not distinctly authorized* by the act of parliament, is, in my opinion, an *illegal* application or dealing.'

"Thus we find Lord LANGDALE, on three different occasions, asserting, in controversies between the shareholders and the corporation, that all acts and dealings of the officers of such corporation which were unauthorized by their charters, were to be regarded, not simply as breaches of trust, but as illegal and, therefore, void. But Lord LANGDALE is not the only English judge who has held, in cases of this class, that the unauthorized contracts of corporations are illegal and void, as against public policy. In the case of Beman v. Rufford, 6 Eng. Law & Eq. 106, which was an action brought by a shareholder in a railway company, to restrain the directors from carrying into effect a certain agreement made by them, Lord CRANWORTH, vice-chancellor, after stating his reasons for thinking the contract unauthorized, said: 'And if that be the correct view of the law, I am clearly of opinion, on all the authorities and all principle, that it is the province of this court to prevent such an *illegal* contract from being carried into effect; because, on the principle that has been so often laid down, this court will not tolerate that parties having the enormous powers which those railway companies have obtained, shall lay out one farthing of the funds, out of the way in which it was *provided by the legislature* that they should be applied.'

"Now I understand those who differ with me on this subject to concede the principle of this case; that is, they admit, that for the directors to enter into a contract which their charter does not authorize would be a violation of their duty to the shareholders, and that the latter may apply to a court of equity and obtain an injunction restraining the directors from carrying the contract into effect. It would be difficult to deny this. For if we take the same view of the nature of a corporation which they take, and consider the directors merely as the agents of the shareholders, and the charter as nothing more than their power of attorney from the corporators, the latter, as the principals, would have a right to repudiate and prevent the execution of a contract, made in their behalf by their agents, without authority; inasmuch as every person dealing with such agents must, as is well settled, be presumed to know the extent of the powers which the charter confers.

"The position then occupied by some of my associates is this: They admit that the shareholders in a corporation have a right to restrain its directors or managers, as their trustees or agents, from entering into any contract not authorized by the charter, or from carrying such contract into effect if made; and yet they hold that the directors are liable, not in their individual, but their corporate character, to the party with whom the contract is made, for not carrying it into effect. It is difficult to see how these two propositions can stand together. The directors are the mere representatives of the corporators. The latter constitute the corporation. Hence, by the two propositions just stated, it is maintained that the corporators have a legal right to enjoin their representatives against the performance of a contract which they themselves are legally bound to perform; in other words, they are liable for damages because their representatives have not performed a contract which they had a right to restrain those representatives from performing. This can hardly be. It would seem to be a legal impossibility. One or the other of these propositions must, I think, be false. Either it must be denied that the shareholders can invoke the aid of a court of equity to prevent the performance of a contract entered into by the directors, which the charter does not authorize,— a principle established by numerous authorities,— or it must be admitted that they are not liable for the refusal or neglect of the directors to perform it. It might be otherwise if it could be shown either that persons dealing with corporations are

make any dividend of the profits of a corporation among the stockholders until all its debts are paid; and that in case of such dividends, or a sale of the capital stock and a division of the proceeds among the stockholders, it will not defeat the rights of creditors; but that they may pursue the proceeds, if necessary to secure their rights, into the hands of such stockholders, and compel them to contribute *pro rata* to the payment of the corporate debts out of the proceeds so received. In a recent case involving this question, Mr. Justice Miller observes: "Equity regards the property of a corporation as held in trust for the payment of the debts of the corporation, and recognizes the right of creditors to pursue it into whosesoever possession it may be transferred, unless it has passed into the hands of a *bona fide* purchaser; and the rule is well settled that stockholders are not entitled to any share of the capital stock nor to any dividend of the profits until all the debts of the corporation are paid. Assets derived from the sale of the capital stock of the corporation, or of its property, become, as respects creditors, the substitutes for the things sold, and as such they are subject to the same liabilities and restrictions as the things sold were before the sale, and while they remained in the possession of the corporation. Even the

not presumed to know the extent of the powers conferred by the charter, or that the corporators can be presumed to have authorized the directors to transcend those powers. But the contrary is the rule in respect to both.

"It would seem to follow that if we look upon the unauthorized contracts of corporate officers as mere breaches of trust, and nothing more, the corporation is not bound by them. This, however, is not the ground upon which I have been endeavoring to maintain that corporations are exempt from liability upon their contracts which are *ultra vires;* nor is it the ground upon which such defenses have in general been sustained in suits brought by third persons against corporations upon such contracts. I shall, therefore, proceed further to show from the authorities that such contracts are illegal and void for public reasons, entirely irrespective of the fact that they constitute breaches of trust toward the shareholders.

"I shall cite but one additional case belonging to the first of the above classes, viz., Winch v. The Birkenhead, Lancashire and Cheshire Junction Railroad Company, 13 Eng. Law & Eq. 506. That was a suit in equity brought by a shareholder to restrain the corporation from entering into an agreement which amounted to a lease of the defendants' road to the London and Northwestern Company. The vice-chancellor, Sir J. Parker, in disposing of the case, used the following language: 'It seems to me that it is not a question of simple incapacity on the part of the London and Northwestern Railway Company to undertake the working of this line, but that it is *against the policy* of these acts of parliament, and I think, therefore, that the agreement for making over this property to them is an agreement *savoring of illegality*, which any shareholder in the Birkenhead Company has a right to come to the court to restrain.'"

sale of the entire capital stock of the company and the division of the proceeds of the sale among the stockholders will not defeat the trust nor impair the remedy of the creditors, if any debts remain unpaid, as the creditors in that event may pursue the consideration of the sale in the hands of the respective stockholders, and compel each one, to the extent of the fund, to contribute *pro rata* toward the payment of debts out of the moneys so received, and in their hands." [1]

The general doctrine in such cases is, that the property of the corporation is a trust fund: first, for the payment of its debts; secondly, for division among its shareholders.

And, "if the capital stock," observes Mr. Story, "should be divided, leaving any debts unpaid, every stockholder receiving his share of the capital stock would, in equity, be held liable *pro rata* to contribute to the discharge of such debts out of the fund in his own hands."

[1] Story's Eq. Jur., § 1252. See, also, Vose v. Grant, 15 Mass. 505; Wood v. Dummer, 3 Mason, 308; Spear v. Grant, 16 Mass. 9; Carson v. African Co., 1 Vt. 121; S. C., Skinner, 84. In the case of Spear v. Grant, *supra*, the defendant was a stockholder in a bank, and withdrew from the bank his stock, when the bank was indebted on bills previously issued, some of which came into the hands of the plaintiff, and the bank failed, and the corporation was dissolved. The action was on the case, and the court held that they were unable to discover any mode by which, at common law, one creditor could compel any stockholder to pay him the amount of his stock, unless there was a fraud on the part of the person sued. But Justice JACKSON observed: "In the case of this bank a court of chancery would probably sustain a bill by one or more creditors of the bank in behalf of all who should choose to come in against all the stockholders. In such a case new plaintiffs and new defendants might be added after the commencement of the suit, as might be found necessary; and the rights of all concerned, on both sides, might be considered at once. It could then be ascertained how much was due in the whole, to all who should choose to adopt this remedy, and what has been received by each stockholder. The latter might then be compelled to pay each one his proportion of the whole debt, provided it did not exceed the amount of his dividend; and the money thus paid might be divided among the plaintiffs in proportion to their respective claims. If any of the stockholders had become insolvent, it would be determined upon the same principles as in a like case in a court of common law, whether loss arising from that circumstance should be borne by the stockholders or creditors, and this point being settled, the court of chancery would proceed to apportion the loss accordingly among the respective parties. It might also be ascertained, whether any of the present holders of the bills had purchased them at a greater discount, and at a later period; and if this circumstance ought to have any influence in estimating the amount of the debt, or in distributing the money to be paid by the defendants, that the court would be competent to make the distribution accordingly." See, also, Cooper v. Frederick, 9 Ala. 742; Dudley v. Price, 10 B. Monr. 84; Bank, etc., v. Chambers, 8 Sm. & M. 49; State v. La Grange R. Co., 4 Humph. 488; Banks, etc., v. St. John, 25 Ala. 566; Johnson v. State Marine Hosp., 2 Cal. 319; Scott v. Eagle Fire Co., 7 Paige, 198.

Sec. 366. **Same continued.** — If a stockholder has not fully paid the amount stipulated for the shares he has subscribed for, the sum remaining due may be reached by a creditor of the corporation if necessary to secure the amount due him from the corporation. All such creditors may, when their interests require it, ask that the fund on which they rely shall really exist in money and not merely on paper, and to be held sacred to the discharge of such corporate liabilities.[1]

Sec. 367. **Doctrine as to parties plaintiff generally, in equitable proceedings, relating to corporations.** — We have sufficiently shown that a stockholder or creditor may, under certain circumstances, maintain a suit not only for an injunction but for an account; but such stockholder must, in fact, be one and not simply a person having an inchoate right of membership.[2] "And, therefore, a person who has sold his shares, even though he may still remain under disabilities, cannot institute proceedings."[3] But it has been held that an equitable owner of shares, or a scrip or policy-holder of an insurance company, may sue.[4] And it has been claimed that a trustee cannot sue, as "he is not actually concerned in the company."[5]

Sec. 368. **Same continued.** — The general doctrine, however, is, that policy-holders cannot interfere with the management of the internal affairs of the insurance company issuing the same, or with the business policy of the company, whether wise or unwise, as to allow such interference would be extremely mischievous; but they could undoubtedly interfere to restrain waste or a breach of trust.[6] So, a shareholder, although allowed to enjoin the doing of acts entirely or materially different from the objects and purposes of the incorporation, and therefore *ultra vires;* yet he will not be permitted to enjoin the doing of acts to carry out the objects of its creation, although they may be injurious to the party complaining in

[1] Wood v. Pearce, 2 Dis. (O.) 411.
[2] Brice's Ultra Vires, 589, and notes.
[3] Id.: Doyle v. Muntz, 5 Hare, 509; Scaith v. Chadwick, 14 Jur. 300.
[4] Great W. R. Co. v. Rushout, 5 DeG. & Sm. 290; Bagshaw v. Eastern U. R. Co., 7 Hare, 114; 2 McN. & G. 389.
[5] Doyle v. Muntz, 5 Hare, 509.
[6] Aldebert v. Leaf, 12 W. R. 462; 2 N. R. 455; *In re* State Fire Ins. Co., id. 565; 34 L. J. Ch. 436; 1 H. & M. 457; 1 DeG., J. & S. 634; *In re* International L. & A. Soc., L. R., 5 Ch. 424.

another capacity than that of stockholder, and although the public generally may be injuriously affected thereby.[1]

Where there are several owners of bonds secured by a conveyance by mortgage or trust deed to trustees, the question whether the bondholder may maintain an action in his own name has been the subject of judicial controversy and investigation. The general rule deducible from the authorities is, that such individual stockholders cannot, independently of the trustees, maintain the action, unless in case such trustee refuses to bring suit after a request from such bondholder who is entitled to such remedy; or in case of fraud or violation of duty, or conduct, on the part of such trustees, prejudicial or inimical to the rights of the *cestui que trust*.[2]

SEC. 369. **Same continued.** — On this subject of parties it has been appropriately observed: "Where there has been a waste or misapplication of the corporate funds by the officers or agents of the company, a suit in equity may be brought by and in the name of the corporation, to compel them to account for such waste or misapplication, the directors being regarded as trustees of the stockholders, and subject to the obligations and disabilities incidental to that relation. But as a court of equity never permits a wrong to go unredressed merely for the sake of form, if it appears that the directors of a corporation refuse, in such case, to prosecute, by collusion with those who had made themselves answerable by their negligence or fraud, or if the corporation is still under the control of those who must be the defendants in the suit, the stockholders, who are the real parties in interest, will be permitted to

[1] Baltimore, etc., v. Wheeling, 13 Gratt. 40. See, also, High on Inj., § 774.

[2] Coal Co. v. Blatchford, 11 Wall. 172; Galveston v. Cowdrey, id. 459; Knapp v. Railroad Co., 20 id. 117; Alexander v. Central R. R. Co. (U. S. C. C. Iowa) 1 Cent. L. J. 545; Van Doren v. Robinson, 16 N. J. Eq. 256; Williamson v. N. J., etc., R. Co., 10 id. 1; Coe v. Columbus, etc., R. Co., 10 Ohio St. 410; Western R. Co. v. Nolan, 48 N. Y. 513; Sturges v. Knapp, 31 Vt. 1; Shaw v. Norfolk County R. Co., 5 Gratt. 162; Ashton v. Atlantic Bank, 3 Allen, 217.

"The appointment of new trustees is an ordinary remedy, enforced by courts of equity in all cases where there is a failure of suitable trustees to perform the trust, either from accident or from the refusal of the old trustees to act, or from their original or supervenient incapacity to act, or from any other cause." Story's Eq. Jur., § 1287. See, also, Ellison v. Ellison, 6 Ves. 663; 2 Fonbl. Eq., B. 2, ch. 7, § 1, and note; Lake v. De Lambert, 4 id. 592; 2 Madd. Ch. Pr. 133; Millard v. Eyre, 2 Ves. 94; Buchanan v. Hamilton, 5 id. 722; Hibbard v. Lambe, Amb. 309.

file a bill in their own names, making the corporation a party defendant. And if the stockholders are so numerous as to render it impossible or very inconvenient to bring them all before the court, a party may file a bill in behalf of themselves and all others standing in the same situation." [1]

The general doctrine in equity is that where the parties having common interests are very numerous, and it is impracticable to bring all of them before the court, one or more may maintain a suit. "The like doctrine," observes Mr. Story, "has been applied to a case where a bill was brought by some shareholders in a joint-stock company (the stock of which was divided into six thousand shares), on behalf of all the shareholders, to compel the directors of the company to refund moneys improperly withdrawn by them from the stock of the company, and applied to their own use. Upon the objection being taken to the want of proper parties, the court overruled it, upon the ground that justice would be unattainable if all the shareholders were required to be made parties to the suit; and that a separate bill by each shareholder, to recover his portion of the money, would produce enormous inconvenience and multiplied litigation, and that the shareholders had one common right and one common interest to be subserved by the suit." [2]

Sec. 370. **Where an injunction will be granted.** — An injunction will always be granted, as we have seen, at the instance of a stockholder or creditor where the corporation or its directors attempt acts *ultra vires*,[3] as where it proposes to exceed the legitimate scope of its authority, or in going beyond any power conferred upon it.[4] So, corporations may be restrained from any use of their powers which must result in the injury of individuals, especially where the authority claimed by the corporation is doubtful, and where the authority if exercised must place others

[1] Ang. & Am. on Corp., § 312. See, also, Robinson v. Smith, 3 Paige, 233; Bayless v. Orne, 1 Freem. (Mass.) Ch. 173; Hodges v. New Eng. Screw Co., 1 R. I. 312; Hersey v. Veazie, 24 Me. 12; Neall v. Hill, 16 Cal. 145; Cumberland Coal v. Sherman, 30 Barb. 553; Butts v. Wood, 31 id. 181; 37 N. Y. 317.

[2] Story's Eq. Pl., § 109; Hichens v. Congreve, 4 Russ. 562; Crease v. Babcock, 10 Metc. 532.

As to when the corporation is a necessary party, Lyman v. Bonney, 101 Mass. 562.

[3] Lane v. Schomp, 20 N. J. Eq. 82; Union Pacific R. R. Co. v. Lincoln County, 3 Dill. (U. S. C. C.) 300.

[4] Colman v. Eastern, etc., R. Co., 10 Beav. 1; Salomons v. Laing, 12 id. 339.

in great peril.[1] And even when a remedy at law may exist for the fraudulent mismanagement of the business on the part of the directors, or a majority of them, this may not always constitute a bar to a claim for an injunction.[2] And where, by the fraudulent or improper conduct of stockholders or directors, certain shares have been transferred to them for the purpose of enabling themselves to retain office, an injunction will be granted to prevent them from voting on such stock.[3] So, a contemplated diversion of the corporate funds to other purposes than those provided for or contemplated by the constating instruments, or for which the corporation was organized,[4] or attempts to misapply the funds to carry out any radical change of the purposes of the organization, will entitle a stockholder or creditor to an injunction to prevent it.[5] So, an injunction will be issued to restrain an unjust or unlawful election, or the casting of improper votes at such election, or indeed from the gross abuse of any of its powers, when the acts will result in such mischief as the stockholders or parties seeking relief ought not to be subjected to.[6]

And this exercise of the equitable jurisdiction of the courts has been disgracefully prostituted in some cases to the enjoining by one court of the exercise of this power by another court of co-ordinate jurisdiction.[7]

SEC. 371. **Where an injunction will not be granted.** — It has been held that an injunction should not be granted to restrain the directors of a foreign corporation from the payment of a dividend at the suit of one to whom the corporation is not indebted, and where the only ground for the injunction is that the directors have committed a mistake in making the dividend, as in such a case the remedy should be in the state of its creation.[8]

[1] Mayor, etc., v. Groshon, 30 Md. 436.

[2] Sears v. Hotchkiss, 25 Conn. 171.

[3] Hilles v. Parrish, 13 N. J. Eq. 380. And the bill is not demurrable, if the party to whom a fraudulent sale is to be made is not a party. Abbot v. American, etc., 4 Blatchf. 489. See, also, 4 Nev. 138.

[4] Kean v. Johnson, 9 N. J. Eq. 401; Smith v. Bangs, 15 Ill. 399; Sears v. Hotchkiss, 25 Conn. 171.

[5] Illinois, etc., v. Cook, 29 Ill. 237.

[6] Lane v. Schamp, *ante*; Watson v. Harlem Navigation Co., 52 How. Pr. 348; Matthews v. Trustees, 7 Phila. 270.

[7] See article entitled "The Erie Railroad Row," 3 Am. L. Rev. 41 (October, 1868); *ante*, § 245, and authorities cited.

[8] Howell v. Chicago, etc., R. Co., 51 Barb. 378.

And where some of the stock issued by the directors is legal, and some not, they can only be restrained from using the proceeds of such of the stock as is illegally issued.[1] Nor will equity relieve by injunction where the appropriate remedy is by action in the nature of *quo warranto*,[2] nor where the ground of relief is for fraud in the election of officers,[3] nor where the object of the suit is the appointment of a receiver for the management of the affairs of the corporation, will the directors or other officers be enjoined from acting in their official capacity where this is not necessary to accomplish the purposes of the suit,[4] nor where it appears that the proceedings of a stockholder are not for the protection of his own interests but to aid others,[5] nor to restrain a stockholder from voting upon an alleged excess of stock in his possession, where no steps have been taken by the company to cancel the excess,[6] nor where a shareholder who claims to be defrauded by the issue of stock seeks to restrain the corporation from disposing of its property leaving insufficient to indemnify him for his loss, as he stands in no better position than a general creditor.[7]

A party may also waive his rights to an injunction and be estopped from such proceedings by his conduct. "Thus, where a depositor in a savings bank has consented that his deposit may be converted into stock, as a security for the debts of the corporation, and his conduct has been such as to amount to a voluntary dedication of his stock for the purpose of securing the debts, he is regarded as estopped from claiming relief in equity, and an injunction will be refused."[8] Nor will a corporation be enjoined from acting in its corporate capacity for the purpose of securing legislative authority to change its objects and powers.[9] But an injunction may be properly allowed in such a case where there is an attempted use of corporate funds for defraying the expense of

[1] Fisk v. Chicago, etc., 53 Barb. 513. See, also, O'Brien v. Same, id. 568; Blatchford v. Ross, 54 id. 42.

[2] Hartt v. Harvey, 32 Barb. 55; Mickles v. Rochester, etc., R. Co., 11 Paige, 118.

[3] Id.

[4] Stevens v. Davison, 18 Gratt. 819.

[5] Sparhawk v. Union, etc., R. Co., 54 Penn. St. 401.

[6] Reid v. Jones, 6 Wis. 680; High on Inj., § 779.

[7] Whelpley v. Erie R. Co., 6 Blatchf. 271.

[8] Maryland, etc., v. Schroeder, 8 G. & J. 93. See, also, Gravestine's Appeal, 49 Penn. St. 310.

[9] Ware v. Grand, etc., R. Co., 2 R. & M. 470; Stevens v. South, etc., R. Co., 13 Beav. 49.

procuring an extension of corporate powers beyond the legitimate objects for which the corporation was instituted.[1]

SEC. 372. **Specific performance — right of way.** — A corporation may be compelled by a court of equity to specifically perform a contract entered into by it, in all instances where equity and good conscience require that it should specifically perform it,[2] in the same manner and to the same extent that performance may be decreed against an individual.[3] Where a party agreed under seal to permit a railroad corporation to construct a road over his land, and to convey a right of way therefor for a certain sum, after the railroad should be definitely located, with a condition in the deed of conveyance, that the deed should be void when the road should be discontinued, it was held, that specific performance of such an agreement should be decreed after the road was constructed over it, although the corporation did not expressly bind itself to take or pay for the land. And it was also held in such a case, that, where the corporation located the road over the land and continued to use the same, and was in actual possession of it for more than three years, a bill filed by it for a specific performance of the agreement would not be dismissed on the ground of unreasonable delay in filing it.[4] But the same rules prevail as to the specific enforcement of contracts against corporations as against individuals, and being a matter resting in the sound discretion of the court,[5] it will not exercise this jurisdiction,

[1] Munt v. Shrewsbury, etc., R. Co., 13 Beav. 1; Stevens v. South., etc., R. Co., id. 49; High on Inj., § 772. See, also, Ward v. Society, etc., 1 Coll. 370.

[2] Inge v. Birmingham, etc., Railway Co., 23 Eng. L. & Eq. 601; Marshall v. Queenborough, 1 Sim. & S. 520.

[3] Kay v. Johnson, 2 H. & M. 118.

[4] Western Railway v. Babcock, 6 Metc. (Mass) 346.

[5] Roundtree v. McLain, 1 Hempst. 245; Lloyd v. Wheatley, 2 Jones' Eq. 267; Duvall v. Myers, 2 Md. Ch. 401; Wadsworth v. Manning, 4 Md. 59; Clarke v. Rochester, etc., R. R. Co., 18 Barb. 350. The enforcement of the specific execution of a contract in a court of equity is not a matter of right, but a matter of sound, reasonable discretion in the court. Blackwilder v. Loveless, 21 Ala. 371; Hudson v. Layton, 5 Harr. 74; Auter v. Miller, 18 Iowa, 405; Waters v. Howard, 8 Gill (Md.), 262; Smoot v. Rea, 19 Md. 398; Hester v. Hooker, 15 Miss. 768; Tobey v. County of Bristol, 3 Story, 800; Pickering v. Pickering, 38 N. H. 400; Young v. Daniels, 2 Iowa, 126; Rudolph v. Covell, 5 id. 126; Humbard v. Humbard, 3 Head, 100. It is not, however, dependent upon the arbitrary pleasure of the court, but regulated by rules and principles. Rogers v. Saunders, 16 Me. 92; Griffith v. Frederick County Bank, 6 Gill & J. 424; Pigg v. Corder, 12 Leigh, 69; Meeker v. Meeker, 16 Conn. 403; Seymour v. Delancey, 3 Cow. 445; 6 Johns. Ch. (N. Y.) 222; King v. Morford, 1 N. J. Eq. 274; Anthony v. Leftwick, 3

when adequate redress can be had at law,[1] nor particularly in the case of corporations where it is grossly improvident,[2] or in excess of the powers of the agent's or officer's powers to make. In England it has been held that a contract to build a railroad is not one of which equity will compel a specific performance.[3]

Rand. 238; Prater v. Miller, 3 Hawks, 629; Turner v. Clay, 3 Bibb, 52; Frisby v. Ballance, 5 Ill. 287; Broadwell v. Broadwell, 6 id. 599; McMurtrie v. Bennett, Harr. 124; Dougherty v. Hampston, 2 Blackf. 273; St. John v. Benedict, 6 Johns. Ch. 111; McWhorter v. McMahan, 1 Clark (N. Y.), 400; Henderson v. Hays, 2 Watts, 148; Perkins v. White, 3 Har. & M. 324; Leigh v. Crump, 1 Ired. Eq. 299; Gould v. Womack, 2 Ala. 83; Pulliam v. Owen, 25 id. 492; Ash v. Daggy, 6 Ind. 259; Howard v. Moore, 4 Sneed, 317. A bill in equity, for the specific performance of a contract, is an application to the sound discretion of the court, which withholds or grants relief, according to the circumstances of each particular case; and in the exercise of its extraordinary jurisdiction in such cases, the court, though not exempt from the general rules and principles of equity, acts with more freedom than when exercising its ordinary powers. The plaintiff who seeks the enforcement must make out a stronger case than he who resists the decree. Tyson v. Watts, 1 Md. Ch. 13. Where, on a bill by a vendor, it appeared that by the contract the vendee had the right to relieve himself from the purchase by paying a stipulated sum, *held*, that the right to come into equity for specific performance being clear, the court, in refusing that decree, might, under the rule that if jurisdiction in equity once attaches, the court may go on to do complete justice, decree the payment by the vendee of the stipulated sum to the vendor, although the vendor might have recovered the same at law. Cathcart v. Robinson, 5 Pet. 263; Stevenson v. Buxton, 4 Abb. Pr. 414.

[1] Wadsworth v. Manning, *ante*.

[2] Shrewsbury, etc., R. R. Co. v. London, etc., Railway Co., 6 H. L. Cas. 113.

[3] Heathcote v. North Staffordshire, etc., Railway Co., 6 Eng. Ry. Cas. 658; 20 L. J. Ch. 82.

CHAPTER XV.

EXECUTION AND THE APPOINTMENT OF RECEIVERS.

SEC. 373. The common-law doctrine in reference to execution.
SEC. 374. Where the same doctrine provides for a sale on execution.
SEC. 375. Doctrine as to the subjection of stocks to execution.
SEC. 376. Statutes generally provide for the garnishment of stockholders.
SEC. 377. Appointment of receivers.
SEC. 378. Judgment creditor's right to a receiver.
SEC. 379. Same continued.
SEC. 380. Same continued.
SEC. 381. Functions, rights and duties of a receiver of a corporation.

SEC. 373. **The common-law doctrine in reference to execution.**—An execution is said to be the end and fruit of the law; *executio est finis et fructus legis.* It makes the judgment effective, and usually all property and pecuniary interests of the defendant, not exempt from execution, is subject to satisfaction of the judgment. But, in reference to corporations, there is, at common law and in the absence of any special statutory provisions on the subject, a further exception, viz.: that the franchises of a corporation as well as the means necessary to the existence and execution of the corporate powers, and to carry out the purposes for which it was instituted, are not the subject of levy and sale on execution.[1] Mr. Herman observes: "Corporations are not formed or created by an execution sale, and until the proper and necessary steps are taken by the state to forfeit its charter and terminate its existence it still possesses the power granted it; the lands, easements or works appurtenant or essential to the practical use and occupation of the franchise cannot be sold separate from the franchise, so as to impair its value or impede its use."[2]

Neither are the tolls or products of the franchise subject to such

[1] Hatcher v. T. W. & W. R. Co., 62 Ill. 477; Bruffett v. G. W. R. Co., 25 id. 353; Stewart v. Jones, 40 Mo. 140; Thomas v. Armstrong, 6 Cal. 280; Munroe v. Thomas, 5 id. 470; Wood v. Turnpike Co., 24 id. 474; James v. Plank R. Co., 8 Mich. 91; Coe v. Railroad Co., 10 Ohio St. 372; Seymour v. Turnpike Co., 10 Ohio, 476; Atkinson v. Railroad Co., 15 Ohio St. 21; Youngman v. Railroad Co., 65 Penn. St. 278; Western Railroad Co. v. Johnston, 59 id. 295; Canal Co. v. Bonham, 9 W. & S. 27; Gue v. Canal Co., 24 How. 263.

[2] Herman on Executions, 551; Amant v. Turnpike Co., 13 S. & R. 210; Canal Co. v. Bonham, 9 W. & S. 27; Coe v. Railroad Co., 10 Ohio St. 372; Atkinson v. Railroad Co., 15 id. 21; Commonwealth v. Company, 5 Cush. 509; Young-

levy and sale, so as to prevent the company from demanding and receiving the same, or so as to divest it of its right of ownership and possession.[1]

man v. Railroad Co., 65 Penn. St. 278; Plymouth R. Co. v. Colwell, 39 id. 337.

Where a corporation, like a bridge or turnpike company, has no tangible property that can be subject to execution, and it has nothing but a mere franchise or easement from which its income and revenue are derived, there is nothing that can be levied on or taken by the officer in satisfaction of the writ; in such cases, where no levy can be made, the equitable powers of the courts in those states where they have abolished the distinctions between law and equity, and in others, where the distinctions still prevail, a court of equity will grant relief to the creditor in the appointment of a receiver, to take possession, charge and control of the franchises and revenues, who as the officer of the court accounts to it, and under its direction satisfies the claim or judgment of the creditor. Herm. on Execu., § 361. See, also, Covington, etc., R. Co. v. Shepherd, 21 How. 112; Macon, etc., R. Co. v. Parker, 9 Ga. 393. In the case of Gue v. Canal Co., *supra,* the United States marshal for the district of Maryland seized and advertised for sale, under an execution, a house and lot, sundry canal locks, a wharf, and sundry lots, which belonged to the defendant. An injunction was obtained against the sale, which was made perpetual; and on appeal from the United States circuit court for Maryland, was in the supreme court of the United States made perpetual. The court observes: "Now it is very clear that the franchise or right to take toll on boats going through the canal would not pass to the purchaser under this execution. The franchise, being an incorporeal hereditament, cannot, upon the settled principles of the common law, be seized under a *fieri facias.* If it can be done in any of the states it must be done under a statutory provision of the state of Maryland, changing the common-law rule in this respect.

"Indeed, the marshal's return and the agreement of the parties show it was not seized, and consequently, if the sale had taken place, the result would have been to destroy utterly the value of the property owned by the company, while the creditor himself would, most probably, realize scarcely any thing from the useless canal locks and lots adjoining them. The record and proceedings before us show that there were other creditors of the corporation to a large amount, some of whom loaned money to carry on the enterprise. And it would be against principles of equity to allow a single creditor to destroy a fund, to which other creditors had a right to look for payment, and equally against the principles of equity to allow a single creditor to destroy a fund to which other creditors had a right to look for payment, and equally against the principles of equity to permit him to destroy the value of the property of the stockholders by dissevering from the franchise property which was essential to its useful existence. In this view of the subject the court do not deem it proper to express any opinion as to the right of this creditor in some other form of judicial proceeding to compel a sale of the whole property of the corporation, including the franchise, for the payment of his debt." So it has been held that neither the turn-tables nor the freight cars found on the road can be levied upon and sold on execution against a railroad company, as they are part of the realty, and cannot be severed and sold. Titus v. Mabee, 25 Ill. 257; Seymour v. Milford, etc., T. Co., 10 Ohio, 476; Hunt v. Bullock, 23 Ill. 320; Palmer v. Forbes, id. 302; Western Pa. R. Co. v. Johnston, 59 Penn. St. 290; Leedom v. Plymouth, etc., R. Co., 5 W. & S. 265; Susquehanna Canal Co. v. Bonham, 9 id. 27; Wood v. Turnpike Co., 24 Cal. 478.

[1] Rorer on Jud. Sales, § 1069. See, also, Herm. on Executions, § 361; Gue v. Canal Co., *supra;* Plymouth R. Co. v. Colwell, *supra;* Youngman v. Alexandria R. Co., 65 Penn. St. 278.

But it is also held that the wood and iron of a railroad company may be taken on execution and sold, although such personal property may be necessary to enable the corporation to carry out the purposes of its creation, and without which it may be unable so to do.[1] And in New Hampshire the locomotive engines, passenger cars and freight cars of a railroad corporation are liable to attachment or execution when not in actual use.[2] The general doctrine is, that the property of a corporation, real and personal, may be taken on execution and sold, the same as in case of individual defendants, and that the tangible property and estate is no more exempt from execution than that of an individual.[3]

Much controversy has existed in reference to the character of rolling stock, and its liability to execution, depending upon the question whether it belongs to the real estate, and is, therefore, subject to mortgage and other lien on its real estate, or whether it is personal property, and, therefore, not covered by such liens. The courts seem to be divided on this question. But, from the preponderance of authority, for most purposes, it is considered as personal property, and that as such, and as against liens upon the right of way, and other real estate of the corporation, it is subject to execution, and may be taken and sold in the same way that other personal property may be sold on execution.[4]

[1] Herm. on Execu., § 361. See, also, State v. Rives, 15 Ired. 297; James v. Railroad Co., 6 Wall. 750.

[2] Boston, etc., R. Co. v. Gilmore, 37 N. H. 410; Rorer on Jud. Sales, 346. Its property, real and personal, may be sold as in case of individuals. Herm. on Execu 550.

[3] See Herm. on Execu., § 360; State of Maryland v. Bank of Md., 6 G. & J. 219; Slee v. Bloom, 5 Johns. Ch. 366; S. C., 19 Johns. 456; Pierce v. Partridge, 3 Metc. 44; Perry v. Adams, id. 51; Reg. v. Queen, etc., Co., 1 A. & E. (N. S.) 288; State v. Rives, 5 Ired. 297. See, also, Regina v. Victoria, etc., Co., 1 Q. B. 289; Boyd v. Chesapeake, 17 Md. 195.

[4] Coe v. Railroad Co., 10 Ohio St. 372; B. C. & M. R. Co. v. Gilmore, 37 N. H. 410; Randall v. Elwell, 52 N. Y. 522; Hill v. La Crosse, 11 Wis. 214; Pierce v. Emery, 32 N. H. 484; Minnesota v. St. P. R. Co., 2 Wall. 609; Stevens v. Buffalo, etc., R. Co., 31 Barb. 591; Beardsley v. Ontario Bank, id. 619; Hoyle v. Plattsburgh, etc., R. Co, 54 N. Y. 314; Herm. on Execu. 561. See, also, 6 Am. Law Reg. 502; 1 Dis. (O.) 552. The character of rolling stock as real or personal property, as well as its liability to execution, is sometimes fixed by statute. Thus, in Wisconsin it is provided by statute that all rolling stock of any railroad company, used and employed in connection with its railroad, shall be a fixture. Taylor's Stat., p. 1048, § 53. See construction of this statute, Chicago & N. W. R. Co. v. Borough of Fort Edward, 21 Wis. 44. It is also provided by the constitution of Illinois as follows: "The rolling stock and all other valuable property belonging to any railroad company or corporation in this state shall be considered personal property, and shall be liable to execution and sale in the same manner as the personal property of individuals, and the general assem-

Sec. 373. **Where the statute provides for sale on execution.** — We have noticed that statutes sometimes provide for the sale of the corporate franchise on execution. In such cases the statute must be strictly followed; and no title will pass by the sale unless made in such a manner as the statute prescribes.[1] On the sale of shares or of the franchise, under the provisions of a statute a distinction is made between it and an ordinary sale of personal property. In the former case there can be no tangible possession taken by the officer or delivered to the purchaser, as in the case of the latter, where it is held that the actual delivery of the property sold gives the purchaser the title, although it may be irregularly conducted by the officer, whereas in the other case, there being no tangible property, the validity of the transfer must rest upon a substantial compliance with the provisions of the statute.[2] Thus, if the officer has failed to give the notice required by the statute, this will render the sale void.[3] And where the statute gave authority to sell the franchises of a plankroad on execution, it was held that a sale could only be made in the manner pointed out by statute; and that an illegal sale under such circumstances will not be rendered valid by the acquiescence of the stockholders in the purchaser's possession, the payment of tolls to him, or by the expenditure of money by him to repair the road, with the knowledge of the stockholders.[4]

Sec. 374. **Doctrine as to the subjection of stock to execution.** — It seems to be a common-law doctrine that the stocks or shares held

bly shall pass no law exempting any such property from execution and sale." Const. Ill., art. xi, § 10, which took effect August 8, 1870.

Rolling stock of a railroad is, in the absence of statutory provisions, and circumstances showing a purpose to treat it otherwise; and according to a preponderance of authority as well as the soundest reason, based upon the circumstanees under which, in the progress of railroad enterprise, we find such stock used, personal property. See *post*, § 467; Hoyle v. Plattsburgh, etc., R. Co., 54 N. Y. 314.

[1] James v. Plankroad Co., 8 Mich. 91; Gue v. Canal Co., 24 How. (U. S.) 257; Stamford Bank v. Ferris, 17 Conn. 259.

[2] Titcomb v. Union Ins. Co., 8 Mass. 326; Howe v. Starkweather, 17 id. 240; Taylor v Jenkins, 6 Jones' L. 316.

[3] Howe v. Starkweather, 17 Mass. 240. See, also, Titcomb v. Union Ins. Co., 8 id. 326.

The return of the officer should show a compliance with the requirements of the statute. Davis v. Maynard, 9 Mass. 242; Hammatt v. Wyman, id. 138. See, also, State Bank v. Tutt, 44 Mo. 367.

[4] James v. Pontiac P. R. Co., 8 Mich. 91. See, also, Oakland R. Co. v. Keenan, 56 Penn. St. 198.

by a party in an incorporated company is a mere personal interest; that the certificates thereof are a mere evidence of ownership, and have no value in themselves;[1] and that such shares and interests are not liable to levy and sale on execution, unless provision therefor is made by statute.[2] "Where property is of so intangible a nature," observes Mr. Brice, "that there can be no change of possession, as shares in a corporation, and it cannot be known whether they are attached or not, the sale of them on execution is a mode of transfer not authorized at common law."[3]

SEC. 375. **Statutes generally provide for garnishment of the interests of stockholders.** — The shares held by debtors not being liable to levy and sale on execution at common law, it has in many, if not most, of the states been provided by statute that the interest thus owned may be attached by garnishment of the corporation.[4] But in such cases the attachment is subject to any lien which the corporation may have, by virtue of the by-laws or constating instru-

[1] Redf. on Rail. 38; Gilpin v. Howell, 5 Penn. St. 57; Tippets v. Walker, 4 Mass. 595; Johns v. Johns, 1 Ohio St. 350; Arnold v. Ruggles, 1 R. I. 165; Howe v. Starkweather, 17 Mass. 243.

[2] See Gue v. Canal Co., 24 How. (U. S.) 257; Ross v. Ross, 25 Ga. 297; Coe v. Columbus, etc., R. Co., 10 Ohio St. 372; Western Pa. R. Co. v. Johnson, 59 Penn. St. 290; Stewart v. Jones, 40 Mo. 140; Denny v. Hamilton, 16 Mass. 402; Denton v. Livingston, 9 Johns. 96; Williamson v. Smoot, 7 Mart. (La.) 31; 2 Kent's Com. 285; Long on Sales, 2; New York v. Schuyler, 38 Barb. 534; S. C., 34 N. Y. 30; Anderson v. Nicholas, 28 id. 600; Bank v. Lainer, 11 Wall. 369.

[3] Green's Brice's Ultra Vires, 562.

[4] It is provided by the statute of Massachusetts, that any share of a stockholder, in any joint-stock company that is or may be incorporated, may be attached by leaving an attested copy of the writ (without the declaration), and of the return of the attachment, with the clerk, treasurer or cashier of the company, if there be any such officer, otherwise, with any officer or person who has at the time the custody of the books and papers of the corporation; that any share of interest so attached shall be held as security to satisfy the final judgment in the suit in like manner as any other personal estate is held. Rev. Stat. Mass., chap. 90, § 36.

In Iowa, it is provided by statute as follows:

"Stock or interest owned by the defendant in any company, and also debts due him, or property of his held by third persons, may be attached, and the mode of attachment must be as follows:

"1. By giving the defendant in the action, if found within the county, and also the person occupying or in possession of the property, if it be in the hands of a third person, notice of the attachment.

"2. If the property is capable of manual delivery, the sheriff must take it into his custody if it can be found.

"3. Stock in a company is attached by notifying the president or other head of the company, or the secretary, cashier, or other managing agent thereof, of the fact that the stock has been so attached." Iowa Code (1873), § 2967. See, also, the same provisions relating to stock interests apply to executions. Id., § 3050.

ments.[1] It is evident that where there is a provision in the constating instruments, that all debts due to the corporation from a stockholder must be satisfied before any transfer of the stock held by him can be made, no creditor by attachment, or levy under an execution, could defeat the rights of such corporation to such lien, by virtue either of such attachment or levy, as the purchaser evidently could acquire no better right than the judgment debtor had, and his right, as we have heretofore observed, in case of a sale and transfer of his interest would, in case of the limitation we have referred to, only carry with it, like any other chose in action, the equitable interest only of the assignor, such transfer of stock would be subject to the liens of the corporation, provided for by contract, by-laws, or by the constating instruments.[2]

On this subject Mr. Brice observes: "The right to subject stock in a corporation to sale on execution, not being given at common law, but being a statutory provision, the statute in such cases directs the mode of seizure and sale on execution. Where, by charter or statutory enactments, a stockholder who is indebted

[1] Sewall v. Lancaster Bank, 17 S. & R 285; Titcomb v. Union Ins. Co., 8 Mass. 326; Coleman v. Spencer, 5 Blackf. 197.

[2] "The rule that an assignor of stock may convey a title without paying what he owes to the company will not of course hold, if by the charter of the company it is provided that all debts due the company from a stockholder must be satisfied before any transfer of his stock shall be made." Ang. & Am., § 570.

And where it was provided by statute, that "no stockholder, indebted to the bank, shall be authorized to make a transfer, or receive a dividend till such debt shall have been discharged, or security to the satisfaction of the directors given for the same;" and a stockholder, who was indebted to a bank, not only for a balance of subscription to stock, but also for a discounted note, gave a power of attorney to the plaintiff to draw dividends and transfer the stock, and also money to pay the installments, which was thus applied, the supreme court of Pennsylvania held that the plaintiff was not entitled to a transfer of the stock, nor to a return of the money paid on installments, Titman, C. J., observing: "The words (of the act) embrace all debts, and there is good reason for their extending to all. When the directors discount the note of a stockholder, they know that his stock is liable, and, therefore, may be less attentive to the sufficiency of the indorsers. The indorsers, too, have an interest in the lien of the bank, and it may be presumed that many persons have been induced to indorse on the strength of this lien." Rogers v. Huntingdon Bank, 12 S. & R. 77.

And in Grant v. The Mechanics' Bank, 15 S. & R. 140, under a provision of an act of the state of Pennsylvania, which prohibited a transfer of stock by a stockholder "indebted" to the bank, it was held that a note given by the stockholder to the bank was a debt due from him to the bank before as well as after it became due, as the provision would fail of its intended benefit, if a stockholder had an unrestrained right to transfer at any time before his note fell due; and that the lien would remain, though the stock were levied upon by a judgment creditor, for notes drawn before but falling due after the levy, even though they should be renewed.

can make no transfer until his debt is discharged, there can be no levy upon such stock unless it be subject to the lien of the corporation. The method prescribed in the charter or statute for the sale of such stock must be pursued or the sale will be void. Where shares of stock in a corporation are made liable to levy and sale on execution, it is the interest the party has in the corporation that is sold, not the mere paper certificates, and if they are sold by the register number and in the name of the owner, that is a good sale."[1]

SEC. 376. **Appointment of receivers.** — The appointment of a receiver in various cases, where it is made apparent that the interests, especially of a judgment creditor, are in danger of being lost, or materially endangered or impaired without it, and where the interests of the adverse party will not be materially prejudiced thereby, is now the common subject of statutory provisions and regulations, and even without statutory provisions on the subject, it is one of the most efficient remedies in such cases, and within the proper jurisdiction of courts of equity, where an execution against a corporation is returned unsatisfied, or where there is nothing that can be levied upon but the mere franchise or easement from which income and revenue can be derived, and then only by the use of the same for the purposes for which the corporation was instituted.

The receiver, on his appointment in such cases, takes possession, charge, and control of the franchises and revenues, and applies the same to the satisfaction of the claim of the judgment creditor.[2]

On this subject, Mr. High, in his valuable treatise on Receivers, observes: "In most of the states of this country, as well as in England, the jurisdiction of courts of equity over corporations has been extended by legislative enactments to the appointing of receivers and the sequestering of the property of the corporation in proper cases, and in some of the states this jurisdiction has

[1] Green's Brice's Ultra Vires, 562, 563. See, also, Sewall v. Lancaster Bank, 17 S. & R. 285, Mechanics' Bank v. Merchants' Bank, 45 Mo. 513; West Branch Bank v. Armstrong, 40 Penn. St. 278; Stanford v. Ferris, 17 Conn. 258; Howe v. Starkweather, 17 Mass. 240.

[2] Covington, etc., R. Co. v. Shepherd, 21 How. (U. S.) 112; Macon, etc., R. Co. v. Parker, 9 Ga. 393. As to the jurisdiction of courts of chancery to appoint, see High on Receivers, § 40 *et seq.*, and notes.

been enlarged by statute to the extent of winding up the affairs of the corporation, and the complete annihilation of its franchises. * * * It is to be observed in the outset, that the general jurisdiction of equity over corporate bodies does not extend to the power of dissolving the corporation, or of winding up its affairs and sequestering the corporate property and effects, in the absence of express statutory authority. And courts of equity will not, ordinarily, by virtue of their general equitable jurisdiction, or of their visitatorial powers over corporate bodies, sequester the effects of the corporation, or take the management of its affairs from the hands of its own officers and intrust it to the control of a receiver of the court, upon the appliction either of creditors or shareholders.[1] * * * Where the jurisdiction of courts of equity has been extended by legislation to the appointment of receivers over incorporated companies, the power thus conferred is treated by the courts as a delegated authority, the exercise of which requires the most careful consideration. The effect of appointing a receiver being to take the property of the corporation out of the control of its own officers, to whom it has been intrusted by its stockholders, the courts proceed with extreme caution in the exercise of so summary a power.[2] And in construing such statutes they are inclined to give them a strict construction, and require the prescribed method of obtaining jurisdiction of the person and the subject-matter to be strictly followed."[3]

Sec. 378. **Judgment creditor's right to a receiver** — We have said that a common exercise of the powers of a court of equity was the appointment of a receiver. But this authority was not usually, if ever, exercised for the purpose of sequestering the effects of the corporation and closing up its affairs, but merely for the purpose of using the franchises, and, through the management and

[1] Citing Bangs v. McIntosh, 23 Barb. 591; Howe v. Denel, 43 id. 504; Waterbury v. Merchants' Union Ex. Co., 50 id. 157; Belmont v. Erie R. Co., 52 id. 637; Neall v. Hill, 16 Cal. 145; Baker v. Administrator, etc., 32 Ill. 79. But a court of equity will generally refuse to appoint a receiver on the application of a stockholder on the ground of fraud, mismanagement or collusion on the part of the corporate authorities. Waterbury v. Merchants' Union Ex. Co., 50 Barb. 157; Neall v. Hill, 16 Cal. 145; High on Inj., § 288 and notes.

[2] Oakley v. Paterson Bank, 1 N. J. Eq. 173.

[3] High on Receivers, 287–289. See, also, Bangs v. McIntosh, 23 Barb. 591.

control of the corporate powers by the receiver, to secure the application of the revenues and net profits of the corporate business to the satisfaction of a judgment creditor, where satisfaction of his judgment could not be otherwise secured, and of which fact the return of the officer on an execution is usually sufficient evidence. But the proceeding in such cases is usually a matter of statutory regulation, and the power conferred thereby, as we have observed, may extend to the sequestration of the corporate property, and the closing up of the corporate business.[1]

SEC. 379. **Same continued.**—The general right of creditors in case of their inability to satisfy their claims by execution is illustrated by the opinion of the supreme court of the United States, in the case of *Covington Drawbridge Company* v. *Shepherd*.[2] The corporation in this case was created by an act of the state of Indiana, for the purpose of building a drawbridge over the Wabash river, in that state. Judgments were obtained against the corporation in the circuit court of the United States, in that state, and on execution a judgment creditor became the purchaser of the rents and profits of the bridge as real property, under the statutes of that state, for one year. He afterward, with other judgment creditors, filed a bill in the circuit court of the United States, and secured the appointment of a receiver, with authority to take possession of the bridge, collect the tolls and pay them into court, to be applied in satisfaction of the judgments of such creditors.

Upon appeal, in the supreme court of the United States, CATRON, J., in delivering the opinion of the court, observes: "By the laws of Indiana, lands and tenements cannot be sold under an execution until the rents and profits thereof for a term not exceeding seven years shall have been first offered for sale at public auction; and if that term or a less one will not satisfy the execution, then the debtor's interest or estate in the land may be sold, provided it brings two-thirds of its appraised value. The tolls, under the idea that they were rents and profits of the bridge, were sold for one year, according to the forms of this law.

[1] High on Receivers, §§ 297, 298; Atlas Bank v. Nahant Bank, 23 Pick 480. See, also, cases cited in the preceding section.

[2] 21 How. (U. S.) 112.

The tolls of the bridge being a franchise and sole right in the corporation, and the bridge a mere easement, the corporation not owning the fee in the land on either bank of the river, or under the water, it is difficult to say how an execution could attach to either the franchise or the structure of the bridge, as real or personal property. This is a question that this court may well leave to the tribunals of Indiana to decide on their own laws, should it become necessary. One thing, however, is plainly manifest, that the remedy at law of these execution creditors is exceedingly embarrassed, and we do not see how they can obtain satisfaction of their judgments from this corporation (owning no corporate property but this bridge), unless equity can afford relief. * * * All that we are called upon to decide in this case is, that the court below had power to cause possession to be taken of the bridge, to appoint a receiver to collect tolls and pay them into the court, to the end of discharging the judgments at law; and our opinion is that the power to do so exists, and that it was properly exercised. It is, therefore, ordered that the decree below be affirmed, and the circuit court is directed to proceed to execute its decrees."

Sec. 380. **Same continued.** — Under the statutes of Wisconsin it was held that a judgment creditor of a corporation may, after execution is returned unsatisfied, in whole or in part, file a bill on behalf of himself and other creditors against not only the corporation but the delinquent stockholders, for an account of the assets and the appointment of a receiver.[1]

[1] Adler v. Milwaukee Pat. Brick Man. Co., 13 Wis. 57. See, also, Rev. Stat. Wis., §§ 18, 19, chap. 148, and same chap., § 15.

Mr. Redfield observes in reference to receivers as follows: "The rules of the courts of equity in regard to the office and agency of a receiver are very strict and stringent. The property while in his custody is regarded in legal contemplation as in the custody of the court. The assets are thenceforth in *gremio legis*, and cannot be seized by process from any other court. And, as a general thing, while a railway corporation is in the hands of a receiver, the receiver is regarded as the acting party and alone responsible to other parties who may receive injuries by the transaction of the business of the company, either by omission of duty or positive aggression. And, although the court will in most instances interfere for the protection of the receiver, on his request, that is not always done, especially where, as in some of the other states, railway corporations are kept in the hands of receivers through a succession of years.

And where the court of equity does not interfere to protect a receiver from his ordinary responsibility, measured by his acts, he will be

In the case just cited Chief Justice DIXON, after maintaining that the capital stock of a corporation, both that which is paid in and that which remains unpaid, is a trust fund pledged for the payment of the debts of the corporation, observes in reference to the powers of a court of equity to afford the requisite relief in such cases, as follows: "The practice in such cases, in those states where the mode of closing up the affairs of non-paying and insolvent corporations, and of distributing the proceeds of their property and effects among their creditors, is governed by the common law, as indicated by the authorities to which reference has been made,[1] precisely that which was adopted by the

held responsible for all the acts and omissions of the corporation while under his sole control and management.

This subject underwent a very elaborate examination in the supreme court of Indiana, and the following propositions were maintained: That a railway with all its appurtenances was in the exclusive possession, use and control of a receiver appointed by a court of competent jurisdiction, who had the employment and control of all the hands upon the road; that the possession of the receiver could not be regarded as the corporation, neither could the company be held responsible for the acts of any servant or employee of the servant. The position of the corporation is more completely obscured and extinguished, so to speak, by the works being placed under the control of a receiver by compulsory proceedings in the courts than by any voluntary surrender of the road and its operations into the hands of lessees or mortgagees, where it has generally been held that the corporation may still be held responsible." 2 Redf. on Rail. 362; Ohio & Miss. R. Co. v. Davis, 23 Ind. 553.

[1] Spear v. Grant, 16 Mass. 9; Vose v. Grant, 15 id. 505; Wood v. Drummer, 3 Mason, 308. In Ward v. Griswoldville Manuf. Co., 16 Conn. 593, the complainants, creditors of the defendant corporation, brought a bill asking the court to compel the subscriber to pay into the hands of the receiver sixty per cent upon the stock, being the sum then remaining unpaid. WAITE, J., in granting the relief prayed for, said: "The resolve incorporating the Griswoldville Manufacturing Company provides, that "the capital stock of the corporation shall not exceed $50,000" — "that a share of the stock shall be $100" — "and that the directors may call in the subscriptions to the capital stock by installments, in such proportions, and at such times and places, as they may think proper, giving such notice thereof as the by-laws and regulations of the company shall prescribe."

There is a further provision, that "the stock, property and affairs of the corporation shall be managed by not less than three nor more than five directors, one of whom they shall appoint their president" — and they shall have power "to make and establish such by-laws, rules and regulations as they shall think expedient, for the better management of the concerns of the corporation, and the same to alter and repeal."

1. The first inquiry arising in this case is, what obligation did a stockholder assume upon himself, when he subscribed for a share of the stock of this company? The answer obviously is, that he agreed to pay the sum of $100, in such installments and at such times, as should be required by the directors. There was no discretion left to him as to times of payment, nor as to the amount, except that it should not exceed the sum of $100.

appellant in this case. The creditor is first to establish his claim by a judgment at law, and then after execution issued and returned in whole or in part unsatisfied, he may file his bill in his own

He had indeed a voice in the election of the directors; but when they were chosen they were clothed with the power of making by-laws, prescribing the time and manner of paying the installments upon the shares, and managing the affairs of the corporation. Were they now to call in the balances due upon the shares, the stockholders could not successfully resist the demand.

This is not only apparent from the terms of the act of incorporation, but in conformity with principles settled by this court in a very recent case. Hartford and New Haven Railroad Company v. Kennedy, 12 Conn. 507. The defendant in that case had subscribed to the stock of a railroad company, and an action was brought against him to recover the amount of certain installments on his shares, ordered by the directors to be paid. The judge who gave the opinion of the court, in that case, says, "Did the defendant, by becoming and continuing a stockholder, incur a personal obligation to pay the installments required by the directors, in the manner prescribed by the charter, on the shares by him originally subscribed, and held by him at the time such installments were called for and were due? We think such an obligation was created; and the law coinciding, in this case, with justice and good faith, will enforce it. It is true a promise to pay, *in precise terms*, does not appear to have been made. The defendant has not affixed his signature to an instrument which contains the words *I promise to pay*; but he has done an equivalent act. He has contracted with the plaintiff to become a member of their corporation, and to be interested in their stock, to the extent of $100 for each share assigned to him, if that amount be required."

And in a subsequent case, it was holden, that a stockholder who derived his stock by a transfer from the original subscriber, and received a new certificate from the company, was personally liable to pay the installments called for after the transfer. Hartford and New Haven Railroad Company v. Boorman et al., 13 Conn. 530.

The only difference between those cases and the present is, that in the former the subscriptions were to the stock of a railroad company, and in the latter, to that of the manufacturing company. But the language used in the two charters is, in this respect, very much alike; and we discover nothing in the object of these companies requiring a construction to be given in one case different from that given in the other. The stockholders, therefore, are equally liable, whether they obtained their shares by purchase, or by virtue of an original subscription.

2. In the next place, does the amount of the shares subscribed constitute the capital stock of the company, or only the amount actually paid in? Had these plaintiffs, when they dealt with the company, and gave them credit, a right to look to the former, as a fund applicable to the payment of their debts, or only to the latter?

The unpaid balances of the shares are as much subject to the call of the directors as any debts due the company. Payment can as well be enforced in the one case as in the other. The directors can at any time collect those balances, and if sufficient, pay off the debts due the plaintiffs. And why should they not do so? What justice is there in withholding funds at their command, and applicable to the payment of those debts?

It is apparent that it is not for their interest to do it. The charter requires them to be stockholders, and the bill alleges that they are such, and actually own a large amount of the shares of the company. A call upon the stockholders for funds to pay off these debts of this insolvent company would be in part a call upon themselves, and might materially affect their own interests. They may, therefore, prefer to let these creditors suffer, rather than become sufferers themselves.

But, have they a right to do this?

behalf and in behalf of such other creditors of the corporation as may elect to become parties thereto, against the corporation and its delinquent or withdrawing stockholders, alleging the recovery

They, with others, have embarked in a business, perhaps hazardous, and as events have shown unfortunate, expecting to share in the profits; and why should they not also bear their proportion of the losses?

It is true the company was incorporated, and the members were not made liable, in their individual capacities, for the debts of the company, but it was necessary for the company to create a capital before they could obtain credit. This was done by the subscriptions to the capital stock. In that, there was a limit fixed to their liability, beyond which they could not be compelled to go. No stockholder can be compelled to pay more than $100 on each share he owns, let the amount of the debts of the company be ever so great. All that is required of the defendant, in the present case, is, that the members shall discharge the obligations which they assumed, upon becoming stockholders, or at least, so much as may be necessary to pay off the debts of the company.

Some stress has been laid, in the argument, upon the proviso in the act of incorporation, requiring the company, within three months from the passing of the act, to lodge a certificate with the town clerk of Wethersfield, containing the amount of capital stock actually paid in and belonging to the company; and directing that it should not be withdrawn, so as to reduce the same below $5,000; and further providing, that, if any part of the capital paid in and certified should be withdrawn, without the consent of the general assembly, the directors allowing it should become liable, in case of the insolvency of the corporation. Hence it is insisted that the capital thus certified, and not the amount of the shares subscribed, constitutes the stock of the company.

The act does not prescribe the amount of capital stock. It says, that it shall *not exceed* $50,000; and the fair inference to be drawn from the proviso is, that it shall not be *less* than $5,000. The company, therefore, might commence business with any capital between those sums. But that the public might know the amount, it was very proper that a certificate should be lodged with the town clerk, for the examination of those who might wish to deal with them. Suppose the number of shares subscribed had been five hundred; the amount paid upon each share, at the end of the three months, $10; and the company had lodged a certificate, stating that the capital subscribed was $50,000, and the amount then actually paid in $5,000; would any one dealing with the company hesitate in believing that the amount subscribed constituted the capital stock of the company? — He would know that but a small portion of the capital had been paid in; — but, at the same time, he would know, from the act of incorporation, that the balance was at all times subject to the call of the directors. And if he considered them honest men, he would believe that they would call in the remaining installments, whenever the wants of the company required it.

The act does not prescribe the form of the certificate, but it would be natural for them to make it according to the condition of the case. How it was in fact made does not appear.

3. It is further claimed, on the part of the defendants, that the power conferred upon the directors to call in the installments upon the shares is a discretionary power, with the exercise of which a court of chancery will never interfere. But that discretion is merely neodal, relating to the time and manner of making the payments. When the wants of the company require those payments, it becomes the duty of the directors to cause them to be made, as much so as to require payment of debts due to the company. We think it is not discretionary with the directors to say whether the company debts shall be paid or not, when they have the means at command.

The case of Catlin v. The Eagle Bank, 6 Conn. 233, has been cited as an authority against this application.

and non-payment of his judgment, and praying the decree or order of the court that an account of the assets and debts be taken and a receiver appointed, and that the stockholders and officers pay in and account to the receiver for so much of the capital stock as will be sufficient to pay the debt of the plaintiff, and those of such other creditors as may choose to join him and come in under the decree; and that the receiver be directed to apply the same in discharge thereof."

But it has been held in New York that a mere common creditor of a manufacturing corporation is not entitled to the appointment of a receiver, in an action by him for a dissolution, and the sequestration of the property of the corporation, on the ground

But that case is clearly distinguishable from this. The question there was, whether an insolvent corporation might pay one creditor in preference to others. Here the question is, whether the corporation may refuse to pay any of their creditors.

4. It is finally said, that if these plaintiffs are entitled to any remedy, it is not by a suit in chancery, but by a writ of *mandamus*, requiring the directors to make the necessary calls upon the stockholders. The Queen v. The Victoria Park Company, 1 Ad. & El. 288; The Queen v. Ledgard et al., id. 616; The King v. St. Catharine Dock Company, 4 B. & Ad. 360.

The authorities cited show that there are cases where the officers of a company may be compelled to make calls upon the members, by a writ of *mandamus*. Whether such a writ could properly issue against the directors of this company, under any circumstances, we do not deem it necessary to inquire; because in the present case such a writ would be wholly inadequate to give the relief prayed for in this bill.

The debts of the plaintiffs are not such as the company is bound to pay at all events. It is averred in the bill that the company is entirely insolvent, and has no visible property. The stockholders are liable only to a certain extent. There may be other creditors entitled to share in the funds of the company, as well as these plaintiffs; and these funds may fall short of the amount of the debts against the company under such circumstances.

It is in the power of a court of chancery to do more ample and complete justice to the parties interested than can possibly be done in a court of law.

The bill shows that the plaintiffs have proceeded as far as they can at law. They have obtained judgments against the corporation — made demand upon the company for payment of these executions — and these executions have been returned wholly unsatisfied. They are now remediless, unless the corporate funds can be reached, by the aid of a court of chancery, on a writ of *mandamus*. The former, in our opinion, is decidedly the more appropriate remedy.

Upon the whole, we think that the plaintiffs, upon the allegations contained in their bill, are entitled to relief; and that, consequently, the demurrer must be overruled." See Mann v. Cooke, 20 Conn. 178, where it was held that a public corporation could not receive a subscription under a private arrangement at less than the par value of the stock subscribed for; and such subscriber was decreed to pay up the unpaid balance. Mann v. Pentz, 3 N. Y. 415; Nathan v. Whitlock, 9 Paige, 152; Henry v. V. & A. R. Co., 17 Ohio, 187; Ogilvie v. Knox Ins. Co., 22 How. (U. S.) 380.

that there was an adequate remedy at law, and that in such a case the creditor will be left to pursue his legal remedy.[1]

SEC. 381. **Functions, rights and duties of a receiver of a corporation.** — In relation to the functions, rights and duties of a receiver of a private corporation, it may be observed that he, for certain purposes, stands as the trustee of both, for creditors and stockholders,[2] and, in other respects, he represents the corporation.

In case of the appointment of a receiver on the application of a judgment creditor, who is unable to obtain satisfaction by execution, it has been held that the receiver thus appointed becomes a trustee, not only for the creditor who secures the appointment, but of other creditors and the stockholders.[3] But he is vested by law for other purposes with the powers of the corporators, and the estate of the corporation; and, for the purpose of determining the extent of his power and title, he represents the body itself.[4] In the case of *Curtis* v. *Leavitt*, just cited, in reference to the powers and functions of the receiver, COMSTOCK, J., observes: "It has been said, in this as in other cases, that he represents the creditors and stockholders, but for all the purposes of inquiring into his title, he really represents the corporation. He is by law vested with the estate of the corporate body, and takes his title under and through it. It is true, indeed, that he is declared to be a trustee for creditors and stockholders; but this only proves that they are the beneficiaries of the funds in his hands, without indicating the sources of his title or the extent of his powers. If then, in a controversy between the receiver and third parties, in respect to the corporate estate, it is possible to form a conception of rights, legal or equitable, belonging to the shareholders as

[1] Galway v. United States Steam Sugar Ref. Co., 13 Abb. Pr. 211; Parmly v. Tenth Ward Bank, 3 Edw. Ch. 395.

[2] Gillet v. Moody, 3 N. Y. 479; Talmage v. Pell, 7 id. 347; Libby v. Rosekrans, 55 Barb. 217; Angell v. Silsbury, 19 How. Pr. 48, which was a decision under the statutes of New York. See, also, under the statutes of Ohio, in such a case, Lafayette Bank v. Buckingham, 12 Ohio St. 419; State v. Claypool, 13 id. 14; also, in Wisconsin, Atchison v. Davidson, 2 Pinn. (Wis. 48.

[3] Id.

[4] High on Receivers, § 315. See, also, Curtis v. Leavitt, 15 N. Y. 44; Hyde v. Lynde, 4 id. 387. See, also, Brouwer v. Hill, 1 Sandf. 629; White v. Haight, 16 N. Y. 310; Osgood v. Laytin, 48 Barb. 464; Shaughnessy v. The Rensselaer Ins. Co., 21 id. 605; New Orleans Gas-light Co. v. Bennett, 6 La. Ann. 457; Gas-light and Bank Co. v. Haynes, 7 id. 114.

individuals, to which the corporation itself could not assent in its own name, the receiver does not represent those rights. So far as shareholders are concerned, he can litigate respecting the fund upon precisely the grounds which would be available to the corporation, if it were still in existence, solvent, and no receivership had been constituted."

Sec. 382. **Same continued.** — It is not our purpose, however, to consider fully the subject of the functions, powers and duties of receivers of corporations. The general subject has received the attention of able writers; and these particular topics have received particular consideration by them. Besides, they have generally, to a greater or less extent, been made the subject of statutory regulations; and where this is the case, the statutes must be consulted in order to determine questions relating to the same.

In conclusion we may notice the following powers and duties and effect of the appointment of the receiver. His appointment does not change the rights of action, or the contract relations of the corporation;[1] he is the officer and agent of the court, and subject to its directions;[2] and he cannot disaffirm a settlement made by the corporation;[3] but he may disaffirm acts of the corporation in fraud of creditors.[4]

Sec. 383. It is the duty of the receiver, as the trustee of the various parties having an interest in the corporate affairs, and as the agent and instrument of the court, to act prudently in the

[1] Williams v. Babcock, 25 Barb. 109; Bell v. Shibley, 33 id. 610; Shaughnessy v. The Rensselaer Ins. Co., 21 id. 605; Savage v. Medbury, 19 N. Y. 32; Moise v. Chapman, 24 Ga. 249; Devendorf v. Beardsley, 23 Barb. 656.

In the latter case Mr. Justice James observes: "The plaintiff, as receiver of the American Mutual Insurance Company, takes its notes and assets subject to all the conditions and legal disabilities with which they were transacted in the hands of the corporation itself; he cannot impeach or disaffirm its authorized acts, nor the authorized acts of its agents. If a note in the hands of the corporation was void, or incapable of enforcement, by reason of the fraud or illegality in its procurement or inception, passing into the hands of a receiver does not purge it of these defects."

[2] Booth v. Clark, 17 How. (U. S.) 322; Hunt v. Wolfe, 2 Daly, 303; Devendorf v. Dickinson, 21 How. Pr. 275; Corey v. Long, 43 id. 497; S. C., 12 Abb. Pr. (N. S.) 427; Skinner v. Maxwell, 66 N. C. 45; S. C., 68 id. 400; Battle v. Davis, 66 id. 252; Hooper v. Winston, 24 Ill. 353; Kaiser v. Kellar, 21 Iowa, 95; Ellicott v. Warford, 4 Md. 80.

[3] High on Receivers, § 320.

[4] Gillet v Moody, 3 N. Y. 479; Butterworth v. O'Brien, 24 How. Pr. 438.

management and settlement of the corporate affairs, acting under the direction of the court for the best interests of all concerned, according to the best of his ability.[1] And when there are funds on hand to be divided among the creditors, this should ordinarily be brought into court and distributed, under the direction of the court, to the parties entitled to it.[2]

"The first duty of receivers of insolvent corporations," observes Mr. High, "is to faithfully collect and justly disburse the assets of the corporation, which constitute the trust fund for the creditors. In the discharge of this duty they are properly vested with a certain degree of discretion, in the compromising and settlement of demands against the corporation; but, in the exercise of their discretionary powers, they should keep constantly in view the interests of those whom they represent, and for whom they act." [3]

But for a fuller consideration of this subject reference must be had to those treatises expressly devoted to it.

[1] If there is any doubt in the mind of the receiver as to the proper course of action or conduct, it is safe to apply to the court for directions. *In re* Van Allen, 37 Barb. 225.

[2] Benneson v. Bill, 62 Ill. 408.

[3] High on Receivers, § 334.

Receivers may decline to ratify a contract made by a corporation after its insolvency, if satisfied the ratification would result in loss. Id.; Suydam v. Receivers, 2 Green's Ch. 114; S. C., id. 276. See, also, Evans v. Trimountain Mut. Fire Ins. Co., 9 Allen, 329.

CHAPTER XVI.

AMALGAMATION AND CONSOLIDATION.

Sec. 384. Amalgamation — meaning of.
Sec. 385. The English doctrine relating to amalgamation.
Sec. 386. Doctrine in this country.
Sec. 387. Consolidation must be authorized by legislative authority.
Sec. 388. Where legislative authority is conferred after the creation of the corporation.
Sec. 389. Same continued.
Sec. 390. Difficulty removed by the exercise of the right of eminent domain.
Sec. 391. Same continued.
Sec. 392. Where authority to consolidate exists at the time of the creation of the corporation.
Sec. 393. Rule as to the requisite concurrence where no provision is made therefor.
Sec. 394. The new corporation created by consolidation.
Sec. 395. Doctrine as to the creditors of the consolidating companies.
Sec. 396. Consolidation of companies organized in different states.
Sec. 397. Same continued.

Sec. 384. **Amalgamation — meaning of, etc.** — The term "amalgamation" seems in England to be generally used in the place of consolidation in this country, and it has there been said to consist in making two companies into one; as, where two companies mutually agree to abandon their organization or association and reorganize a new one as one body.[1] It is affirmed in relation to amalgamation in England, that there is no implied power in corporations so to do, and, also, that a majority of the directors cannot authorize and consummate an amalgamation under a general authority to amalgamate, so as to bind the dissenting members to assume liabilities in the new organization. In such a case it was observed by the vice-chancellor *In re Empire Assurance Corporation, ex parte Bagshaw*, above cited, as follows: "It is possible that this authority may go thus far; it may empower the directors, without being called to account for so doing in this court, or by any other jurisdiction, to sacrifice or to give up (which implies something more) the whole of their business, and to transfer their assets, if they

[1] *In re* Bank Hindustan, etc., 2 H. & M. 666. See, also, *In re* Empire Assurance Corp., *ex parte* Bagshaw, L. R., 4 Eq. 341; 36 L. J. Ch. 663; 15 W. R. 889; 16 L. T. (N. S.) 345; Era Ass. Co., Williams' Case, 2 J. & H. 400.

think fit, to some other company to carry on the business on the best terms they can make with them. In carrying out this the directors may possibly be authorized to say, 'you who do not like this arrangement must simply lose; we have amalgamated one company with the other, * * * and we have placed all your assets in the hands of another concern.' But that does not imply that the dissentient shareholders, besides losing their assets, are personally bound to take part and lot in the new concern. It is one thing to say, 'Possibly you may find all the assets gone and your share of no value;' but it is a prodigious step further, to say, that the dissentient shareholder, having been concerned in an insurance company, shall be obliged to become subject to all liabilities of another company, which is not only an insurance company but a guaranty company, and a company for the purchase of houses and various other things as well."

SEC. 385. **The English doctrine relating to amalgamation.** — The recognized English doctrine on the subject of amalgamation is, as we have noticed, that a majority of the members cannot amalgamate, and transform shares from one association into another, as such a proceeding would be *ultra vires*.[1] But, it is there held, that where amalgamation cannot be legally effected in a direct manner, the object may be accomplished in an indirect manner. Thus, Mr. Brice observes: "It may do so by transferring its property, funds, rights and liabilities to the other contracting corporation, and then voluntarily dissolving itself, usually by winding-up. Generally the arrangement is supplemented by a proviso, whereby a transferee, the purchasing company, indemnifies the selling company against the liabilities which it may be under in

[1] Clinch v. Financial Corporation, L. R., 4 Ch. 117; Higg's Case and Martin's Case, 2 H. & M. 657; Los's Case, 34 L. J. Ch. 609; London, etc., Bank, Drew's Case, 36 L. J. Ch 785.

In the case first cited, B., a corporation, had agreed to purchase the goodwill of C., another corporation, and such agreement was confirmed at a special meeting of B. But the plaintiff, one of the stockholders in the corporation B., objected, and filed a bill against the other shareholders and directors to set aside the agreement. It was held that there was no special power in the constitution of corporation B., or in the provisions of the English act (1862), relating to the subject, to authorize such a proceeding. See, also, Imperial Bank, etc., v. Bank of Hindustan, etc., L. R., 6 Eq. 91; London, etc., Corp., L. R., 4 Ch. 682; James v. Eve, L. R., 6 H. L. 335; Fremont v. Stone, 42 Barb. 169; Bliss v. Matteson, 52 id. 335; S. C., 45 N. Y. 22; Green's Brice's Ultra Vires, 512.

respect to claims, existing or prospective. This, after all, is not an amalgamation; it is not a union of one corporation with another, but is simply a transfer of assets, with attendant responsibilities. It is, however, a sufficient amalgamation for all practical purposes, and it is, therefore, the process always adopted."[1]

Sec. 386. **Doctrine in this country.** — The term *consolidation*, in this country, is generally used in the place of amalgamation in England. It is sometimes an organization or constitution of a new company out of two or more old ones, or a conveyance of the capital and rights of one or more to another, the latter continuing the business of all in its original corporate name, under stipulated arrangements, and in accordance with statutory provisions relating to the subject. In the case of the consolidation of three companies, it has been observed that the effect of the consolidation "was a dissolution of the three corporations named, and at the same instant the creation of a new corporation, with property, liabilities, and stockholders derived from those then passing out of existence."[2] So, again it has been observed, that consolidation amounts to "a surrender of the old charters by companies, the acceptance thereof by the legislature, and the formation of a new corporation out of such portions of the old as enter into the new."[3] But where, by the provisions of the statute and by agreement, one corporation conveys all its property to another and is extinguished, this was held in Missouri not to be an amalgamation or consolidation of the two corporations into one.[4] The general doctrine in this country seems to be, as in England, that there is no inherent power in a corporation, or implied authority in constating instruments, to authorize a corporation to amalgamate or consolidate with another or other companies. The reasoning against this power is, that as the charter is a contract between the state and the corporation, any alteration made there-

[1] Green's Brice's Ultra Vires, 513; Anglo-Australian Co. v. British, etc., Co., 3 Giff. 521; 4 De G., F. & J. 341. See, also, same principle in Hodges v. N. E. Screw Co., 1 R. I. 312; S. C., 3 id. 9; Booth v. Bunce, 33 N. Y. 139; Rorke v. Thomas, 56 id. 559; Barclay v. Quicksilver Mining Co., 9 Abb Pr. (N. S.) 283; Same v. Same, 6 Lans. 25; Kelly v. Mariposa Mining Co., 4 Hun, 632.

[2] McMahan v. Morrison, 16 Ind. 172.

[3] Lauman v. Lebanon, etc., R. Co., 30 Penn. St. 42.

[4] Powell v. North Mo. R. Co., 42 Mo. 63.

in must be assented to by both parties, and hence the state must assent to any change of its purposes and powers.[1]

SEC. 387. **Consolidation must be authorized by legislative authority.**— From what we have observed, it may be inferred that in order to make consolidation effective and valid, it must in all cases receive at least legislative assent. This may be given in the original charter,[2] or by general laws; and provision therefor may be made by general laws, or by a special act even after the organization of the original corporations.[3] But with what effect, where members or creditors dissent from the consolidation, we shall hereafter notice. The demand for the consolidation of railroad companies, not only in the various states, but with connecting lines in other states, has secured legislation for this purpose in most of the states. And in view of the manifest interest of stockholders and creditors, the American policy has favored general statutes on this subject, providing for consolidation of continuous lines of railroads owned by different companies, created even in different states. And where such authority is not provided, the same object has partially been accomplished by leasing such railroad lines.[4]

[1] The right to consolidate two or more corporations into one can be acquired by legislative authority to that end. N. Y. & Sharon Canal Co. v. Fulton Bank, 7 Wend. 412; Black v. Delaware, etc., Canal Co., 24 N. J. Eq. 455. And a consolidation effected without such special authority is *ultra vires* and void. *In re* Era Insurance Soc., 3 L. T. (N. S.) 314. And equity will restrain a corporation under such circumstances from consolidating with another, at the suit of any stockholder. Charlton v. Newcastle & Carlisle Railway Co., 5 Jur. (N. S.) 1096. So, too, in this country, the consent of the stockholders is necessary. Kean v. Johnson, 9 N. J. Eq. 401; Fisher v. Evansville, etc., R. R. Co., 7 Ind. 407; Black v. Delaware, etc., Canal Co., *ante;* Blatchford v. Ross, 54 Barb. 42; *In re* Empire Assurance Co., L. R., 4 Eq. 341; *In re* London, etc., Ins. Corporation, L. R., 4 Ch. App. 682.

[2] Clearwater v. Meredith, 1 Wall. 25; Nugent v. Supervisors, 19 id. 241.

[3] Black v. Delaware, etc., Canal Co., 24 N. J. Eq. 455; Bishop v. Brainerd, 23 Conn. 289. See, also, Pearce v. Madison, etc., R. Co., 21 How. 441; Fisher v. Evansville, etc., R. Co., 7 Ind. 407.

[4] For general statutes of various states on the subject of consolidation, see Iowa Code (1873), 233, § 1275; Wagner's Missouri Statute, 314, § 56; Laws of Kansas (1870), chap. 92, § 1, p. 195; California Code, 10; Rev. Stat. Col., chap. 18, § 57, p. 137; Gen. Stat. Neb. 196, § 114; Compiled Laws Nev. (1873), vol. 2, p. 301, § 3465; Webb's Railroad Laws of Me. 87; Edmonds' N. Y. Stat. at Large, 529; Laws of N. J. (1873), chap. 413, § 17, p. 98; Brightley's Purdon's Dig. (Laws of Pa.) 1222–1226; Battle's Rev. Stat. N. C. 749; Rev. Stat. S. C. 368; Sess. Laws Ala. (1869–70) 318; Rev. Stat. Ky. (Stanton), vol. 2, p. 548; Stat. Tenn. 1140; Rev. Stat. Ohio (Curwin), pp. 1882, 2791; Wilcox's R. R. Laws, Ohio, 134; Gen. Stat. Ind., vol. 3 (Davis' Supp.), 399; Rev. Stat. Ill. (1874), 294, 295; Gilbert's R. R. Laws of Ill. 229; Compiled Laws Mich., chap. 75, p. 812, § 41; Rev. Stat. Minn., chap. 34, p. 269; Edgerton's R. R. Laws of Minn., 19.

Sec. 388. **Where legislative authority is conferred after the creation of the corporation.** — Where the legislative authority is conferred after the charters have been granted to the consolidating companies, or after they have organized under general laws, it has been held that the constating instruments become an inviolable contract not only between the state and the corporation, but between the corporation and its members; and that in the absence of authority conferred at the time, or previously thereto, the corporation cannot change the nature and purposes of the corporation, even with the assent of the legislature subsequently given, without the unanimous assent of the stockholders. The legislature cannot, in such a case, authorize a majority of the corporation to make a contract to consolidate with another corporation, against the will of a minority, as it would impair, in such a case, the obligation of the contract. In relation to this subject and the rights of stockholders in such cases, in a recent case in the supreme court of Maryland, it was observed: "As stockholders they own the road in common, to be employed for specific uses. Each owns a share in the whole, and is to have a proportionate share in its profits. They have invested a portion of their capital in it, and in it alone. They have a right in the road and in every dollar it earns. The directors are their trustees to employ their joint capital in the management of the road, and the road only, to the end that from the investment the stockholders have chosen, they may reap the contemplated profits. And this is the agreement of the stockholders among themselves. They each contract with the other that the money shall be so employed. What the majority determine within the scope of this mutual contract they each agree to abide by; but there their mutual contract ends, and no majority, however large, has a right to divert one cent of the joint capital to any purpose not consistent with, and growing out of this original fundamental joint intention. To sell the road, to abandon the contemplated investment and embark in another scheme, whether entirely different or only more extensive than the original contemplation, as apparent on the face of the charter, is, it seems to me, clearly contrary to the rights of the individual stockholders." [1]

[1] Kean v. Johnson, 9 N. J. Eq. 401.

SEC. 389. **Same continued.** — The doctrine sustained by principle seems to be that the corporate contract and the vested rights of stockholders under the same cannot be affected by legislative authority authorizing any change of its original purposes or business. The stockholders have entered into a contract, and assumed obligations, under legislative sanction, to expend money in a manner mutually agreed upon, and an objecting stockholder should not be compelled to engage in a new and different enterprise;[1] and a dissenting stockholder may prevent consolidation or amalgamation of the corporation of which he is a member with any other, unless such a condition is a part of the contract entered into by him.

SEC. 390. **Difficulty removed by the exercise of the right of eminent domain.** — The difficulty in effecting consolidations of railroad companies under the circumstances indicated in the preceding section has been, in some cases, obviated with corporations having duties to perform to the public, by the exercise of the power of eminent domain. On this subject, generally, Mr. Cooley observes: "Every species of property which the public needs may require, and which government cannot lawfully appropriate under any other right, is subject to be seized and appropriated under the right of eminent domain. Lands for the public ways; timber, stone and gravel with which to make or improve the public ways; buildings standing in the way of contemplated improvements, or which for any other reason it becomes necessary to take, remove or destroy for the public good; streams of water; corporate franchise; and generally, it may be said, legal and equitable rights of every description are liable to be thus appropriated."[2]

[1] Black v. Delaware, etc., Canal Co., 24 N. J. Eq. 455. See, also, Lauman v. Lebanon, etc., R. Co., 30 Penn. St. 46, where LOWRIE, J., in considering the rights of a dissentient stockholder, says: "He may object that his co-corporators have no power to make a new contract for him, and thereby constitute him a member of a new and a different corporation. * * * He may object even that the legislature cannot authorize this, for by so doing they would authorize the destruction of one private contract, and the compulsory creation of another in its stead, and would take away the remedy by due course of law, which the dissenting stockholder is entitled to, because of the departure or diversion of the association from its agreed purposes; and would, besides this, change the essential nature of contracts, which even legislative power cannot do, and much less legislative authority."

See, also, Clearwater v. Meredith, 1 Wall. 25; Nugent v. Supervisors, 3 Biss. 105; S. C., 19 Wall. 241; McMahan v. Morrison, 16 Ind. 172; Mowrey v. Ind. & Cin. R. Co., 4 Biss. 78.

[2] Cooley on Const. Lim. 526.

Sec. 391. **Same continued.** — It is claimed that the stock of an individual is just as subject to the claim of eminent domain as any other property; that rail corporations have duties to perform to the public, and that if one unwilling stockholder should be permitted to obstruct the growth and development of every railroad enterprise in which he may have participated, and hinder their union under one management, when the interests of commerce and of the stockholders and creditors, and public convenience and policy may require it, the government would fail to discharge its duty if it should not exercise this right. On this subject in a recent case in New Jersey, Van Syckel, J., observed as follows: "In the exercise of the right of eminent domain, the legislature may authorize shares in corporations and corporate franchises to be taken for public uses, upon just compensation. The title to this species of property is no more secure against invasion when the public use requires it than is the ownership of real estate. Under this paramount right in the public, subject to which all private property is held, the franchises of one corporation have been, and may be taken and bestowed upon another. * * * When authority is granted for the consolidation of existing connected routes, the presumption flows, from the fact of the enactment being made, that the legislature decided upon its necessity. This results from the familiar rule that every intendment will be made in support of the constitutionality of the acts of a co-ordinate branch of the government." [1]

But where this doctrine is recognized it is evident that a just compensation should be allowed the party whose stock is taken under such right.[2] And it may be affirmed that in all cases where

[1] Black v. Delaware, etc., Canal Co., 9 C. E. Green, 455.

[2] Lauman v. Lebanon, etc., R. Co., 30 Penn. St. 42; Fisher v. Evansville, etc., R., 7 Ind. 407; McCray v. Junction R. Co., 9 id. 358; State v. Bailey, 16 id. 46; Shelbyville, etc., T. Co. v. Barnes, 42 id. 498; Illinois G. T. R. Co. v. Cook, 29 Ill. 237; Lauman v. Lebanon Valley R. Co., 30 Penn. St. 42.

It is generally conceded that the condemnation of property and interests, under this power of eminent domain, is a right which exists in the sovereign power only where some public use and benefit is to be subserved. But what is a public benefit or use?

On this subject Mr. Cooley observes: "We find ourselves at sea, however, when we undertake to define, in the light of the judicial decisions, what constitutes a public use." Cooley on Const. Lim. 531. And Chancellor Walworth has said: "If the public interest can be in any way promoted by the taking of private property, it must rest in the wisdom of the legislature to determine whether the benefit to the public will be of

a consolidation is effected, unless the power so to do existed at the time the contract between the corporation and the stockholder was entered into, even through the exercise of the power of eminent domain, it will relieve a dissenting stockholder from his subscription, and must entitle him to recover the value of his interest in the corporation, as it existed at the time of the exercise of this power.[1]

SEC. 392. **Where authority for consolidation exists at the time of the creation of the corporation.**— If authority is contained in the charter or general act under which the corporation was organized, or where authority is subsequently given either by a general or a special statute, but before the contract of subscription is entered into, it not only authorizes a consolidation according to the terms and provisions of the act, but precludes any objection on the part of the stockholders to the consolidation. The terms and conditions of the consolidation, and the rights and privileges of the

sufficient importance to render it expedient for them to exercise the right of eminent domain, and to authorize an interference with the private rights of individuals for that purpose. It is upon this principle that the legislatures of several of the states have authorized the condemnation of lands of individuals for mill sites, when from the nature of the country such mill sites could not be obtained for the accommodation of the inhabitants without overflowing the lands thus condemned. Upon the same principle of public benefit, not only the agents of the government, but also individuals and corporate bodies have been authorized to take private property for the purpose of making public highways, turnpike-roads and canals, of erecting and constructing wharves and basins, of establishing ferries, of draining swamps and marshes, and of bringing water to cities and villages. In all such cases the object of the legislative grant of power is the public advantage expected from the contemplated improvement, whether such improvement is to be effected directly by the agents of the government or through the medium of corporate bodies or of individual enterprise." Beekman v. Saratoga & Schenectady R. Co., 3 Paige, 73. See, also, Cooley's Const. Lim. 532 *et seq.*; also, on the subject of public interest in case of eminent domain, *post*, § 441 *et seq.*

[1] Carlisle v. Terre Haute, etc., R. Co., 6 Ind. 316.

Where a public use or benefit is to be accomplished, a change in the objects and purposes of the corporate enterprise may be enforced by the legislature, provided compensation is made for the interest of dissenting stockholders. Boston Water Power Co. v. Boston, etc., R. Co., 23 Pick 360; Springfield v. Connecticut River R. Co., 4 Cush. 63; Central Bridge Co. v. City of Lowell, 4 Gray, 474; West River Bridge v. Dix, 6 How. 507; Richmond R. Co. v. Louisa R. Co., 13 id. 71; White River Turnp. Co. v. Vermont Cent. R. Co., 21 Vt. 590; Piscataqua Bridge v. New Hampshire Bridge, 7 N. H. 35; Crosby v. Hanover, 36 id. 404; Tide Water Canal Co. v. Coster, 3 C. E. Green, 521; Matter of Drainage, 6 Vroom, 497; Black v. Delaware, etc., Co., 9 C. E. Green, 455; Chesapeake, etc., R. Co. v. Baltimore, etc., R. Co., 4 Gill & J. 1; Newcastle R. Co. v. Peru, etc., R. Co., 3 Ind. 464; Enfield Bridge Co. v. Hartford, etc., R. Co., 17 Conn. 40.

stockholder in such cases may depend upon the provisions of the statute or other constating instruments. These may provide for the concurrence requisite to consummate a consolidation, either by the corporators or the directors, and what the rights of stockholders shall be in that event.[1]

Sec. 393. **Rule as to the concurrence required where no provision is made therefor.** — If authority to consolidate is given, and no express provision made as to the mode or the concurrence requisite to accomplish this purpose, it could undoubtedly be accomplished by the corporate body in the usual way of corporate action, and in such a case the concurrence of a majority of the members would be sufficient to accomplish the purpose.[2]

[1] The general rule, as well as the distinction referred to, has been illustrated by the opinion of the supreme court of the United States in the case of Nugent v. Supervisors, 19 Wall. 241, in which an attempt was made to avoid a subscription on the part of a county in the state of Illinois to the stock of a corporation, on the ground of a subsequent consolidation of such company with another. But an authority to consolidate existed at the time of the creation of the company, by an act of that state approved Feb. 28, 1854. The court say: "It must be conceded as a general rule that a subscriber to the stock of a railroad company is released from obligation to pay his subscription by a fundamental alteration of the charter. The reason of the rule is evident. A subscription is always presumed to have been made in view of the main design of the corporation, and of the arrangements made for its accomplishment. A radical change in the organization or purposes of the company may, therefore, take away the motive which induced the subscription, as well as affect injuriously the consideration of the contract. For this reason it is held that such a change exonerates a subscriber from his liability for his subscription; or, if the contract has been executed, justifies a stockholder in resorting to a court of equity to restrain a company from applying the funds of the original organization to any project not contemplated by it. But while this is true as a general rule, it has no application to a case like the present. The consolidation * * * was no departure from its original design. The general statute of the state * * * authorized all railroad companies, then organized or thereafter to be organized, to consolidate their property and stock with each other, and with companies out of the state, whenever their lines connect with the lines of such companies out of the state * * *. The American authorities uniformly assert that the subscriber for stock is released from his subscriptions by a subsequent alteration of the organization or purposes of the company, only, when such alteration is both fundamental and not provided for or contemplated by either the charter itself or the general laws of the state."

See, also, Hanna v. Cincinnati, etc., R. Co., 20 Ind. 30, where it was held that, as one of the purposes for which the corporation was organized was to consolidate, it would be presumed that the subscriber might have reasonably anticipated such a result, and he was held bound by his subscription. See, also, Hamilton v. Hobart, 2 Gray, 543; Gardner v. Hamilton Ins. Co., 33 N. Y. 421; Sparrow v. Evansville, etc., R. Co., 7 Ind. 369; Bish v. Johnson, 21 id. 299; Mowrey v. Indiana, etc., R. Co, 4 Biss. 78; Blatchford v. Ross, 54 Barb. 42.

[2] See Black v. Delaware, etc., Canal Co., 7 C. E. Green, 130; Zabriskie v. Hackensack & N. Y. R. Co., 3 id. 178; McVicker v. Ross, 55 Barb. 247.

SEC. 394. **The powers of the new corporation, created by consolidation.**— By consolidation the old companies cease and a new one is created and usually the property and the rights and liabilities of each pass to the new company.[1] But it is evident that the franchises, that would pass to the new company, would be only such as would be necessary for the exercise of the powers and privileges conferred upon it by the new organization.[2]

[1] Miller v. Lancaster, 5 Cold. 514; Paine v. Lake Erie R. Co., 31 Ind. 283; Columbus, etc., R. Co. v. Powell, 40 id. 37.

[2] As to effect of exemption from taxation of one of the old companies, see Philadelphia, etc., R. Co. v. Maryland, 10 How. (U. S.) 376; Tomlinson v. Branch, 15 Wall. 460. See, also, in reference to special rights enjoyed by one of the original companies, Shaw v. Norfolk, 16 Gray, 407; Bishop v. Brainerd, 28 Conn. 229; Fisher v. New York C. R. Co., 46 N. Y. 644; Robertson v. Ryckford, 21 Ill. 457; Commonwealth v. Atlantic, etc., R. Co., 53 Penn. St. 9; New Jersey M. R. Co. v. Strait, 35 N. J. L. 322.

Where two corporations chartered before the passage of a general law of the state reserving to the legislature the right to alter or repeal all corporate charters, were consolidated by virtue of an act passed after such law took effect, it was held that the old corporations were dissolved, and that the new one formed by the consolidation came into existence subject to the general law. Shields v. Ohio, 95 U. S. 319. But where the corporations were chartered after such a law existed, or where their charters authorize consolidation, such consolidation does not necessarily work a dissolution of both, and the creation of a new corporation. The effect of the change depends upon the legislative intent manifested in the statute under which the consolidation takes place. Central R. R., etc., Co. v. Georgia, 92 U. S. 665; South-western R. R. Co. v. Georgia, id. 676, note; Muller v. Dows, 94 id. 444.

Where a new corporation was formed out of two or more previously existing corporations, and, by the act, was to "have the powers, privileges, and immunities possessed by each of the corporations" united in it, and these had somewhat different powers, etc., the new corporation was adjudged to have only the privileges, powers, and immunities which each of the previous corporations possessed.

The new corporation cannot claim an immunity from taxation enjoyed by the old companies, or either of them, if it was dependent on conditions which the new corporation is not able to perform. State v. Maine Central R. R. Co., 66 Me. 488.

Generally speaking, however, when a new corporation is formed by an amalgamation, under the authority of the state, of two or more distinct corporations into one, the new body succeeds to all the rights and faculties of the several components, and is subject to all the conditions and duties imposed by the law of their creation, except so far as the contrary may be provided by the act. Zimmer v. State, 30 Ark. 677; Chicago, etc., R. R. Co. v. Moffit, 75 Ill. 524.

Upon a legal consolidation of two corporations the new one succeeds to all the rights of the old. Thus the act of the legislature of Vermont consolidating the University of Vermont and the Vermont Agricultural College, which were previously independent corporations, into a new corporation under the name of The University of Vermont and State Agricultural College, passes to the new corporation all the property, in the most extensive sense, of the university, and in express terms gives the new corporation the right to maintain actions in its own name in relation to the real property vested in it by the union, but is silent as to the right to sue upon choses in action. Held, nevertheless, that as to all choses in action which were transferred to the new corporation, it was substituted for the original

In a case where there was a lawful consolidation of two railroad companies, under the laws of Indiana, and a suit was brought against the consolidated company for an injury done by one of the original companies, the supreme court of that state said: "By the consolidation both the old companies ceased to exist separately, and all their effects and franchises were vested in the new company. The two corporations became merged in one. We cannot imagine how the Indianapolis and Cincinnati Railroad Company [the company originally liable] could afterward be sued. Upon whom would process be served? It ceased to have any officers or agents. It ceased to be a separate legal entity. Instead of two there was now but one corporation, made up of the mingled elements of the two pre-existing companies, so combined and merged that neither could be separately identified or brought into court. But what are the rights of creditors and persons upon whom torts have been committed by the vanished corporations? A dead man may have an administrator to represent his estate and answer to suits, but a corporation, lawfully disappearing thus, has no estate to be administered. Its assets must have vested in the new consolidated corporation. Must lawful claims be lost then? That result cannot follow. The legislature has chosen to make no provision upon the subject, and the industry of counsel as well as our own examination of the books has failed to discover any direct authority upon the question before us. The analogies of the law too afford little aid in its solution. * * * Giving it, however, the best consideration we were capable, under the circumstances, we have reached the conclusion

party without prejudice to the other party to the claim transferred, and had the right to sue on such claims in its own name. University of Vermont, etc., v. Baxter, 42 Vt. 99.

A consolidated corporation, formed under an act which vested in the new corporation all the powers, rights, franchises, etc., of the old corporations, was held entitled, under the circumstances, to use a patented invention which both the old corporations had been licensed to use. Lightner v. Boston, etc., R. R. Co., 1 Low. (U. S. C. C.) 338.

The rule seems to be that in the absence of any express provision to the contrary, whenever one corporation goes entirely out of existence, by being annexed to or merged in another, the subsisting corporation will be entitled to all the property, and answerable for all the liabilities of the extinguished one. Thompson v. Abbott, 61 Mo. 176.

But when two corporations unite their property, and form a new corporation, in which no money is paid by either party, the new corporation cannot claim the position of a *bond fide* purchaser for value, but takes the property subject to any existing liens. The Key City, 14 Wall. 653.

that, for the purposes of answering for the liabilities of the constituent corporations, the consolidated company should be deemed to be merely the same as each of its constituents, their existence continued in it under the new form and name, their liabilities still existing as before, and capable of enforcement against the new company in the same way as if no change had occurred in its organization or name."[1]

[1] Indianapolis C. & L. R. Co. v. Jones, 29 Ind. 465. Generally where two corporations consolidate the new corporation assumes all the debts and liabilities of the old as well as all its rights, and may be sued thereon, or may enforce the rights of the old one. Miller v. Lancaster, 5 Caldw. 514. Thus in Bishop v. Banks, 28 Conn. 289, the New York and Boston Railroad Company, a corporation chartered by the legislature of Connecticut, became consolidated, under the same name, with a railroad corporation of the state of Rhode Island, the charter of the latter corporation specially authorizing such union, and that of the former authorizing the company "to connect and make joint-stock common interest with any other railroad company." The charter of the Connecticut corporation was subject to amendment by the legislature, which afterward passed a resolution ratifying and confirming the consolidation. By the articles of union, the property of the original corporations was transferred to and vested in the new corporation, which was to pay the debts of the old corporations. B. was an original subscriber to the stock of the Connecticut corporation. A creditor of that corporation, whose claim accrued after the consolidation, factorized B. as the debtor of the Connecticut corporation.

Upon a *scire facias* afterward brought by him against B., held (1) that while it was very questionable whether the charter of the Connecticut corporation would have authorized such a consolidation, yet that the transaction was validated by the ratifying act of the legislature, which was to be considered as an amendment of the charter as much as if it had been expressly so declared.

(2) That the new corporation, being legally established and having capacity to receive an assignment of the property of the original corporation, and such assignment having been made on valuable consideration, the indebtedness of B. was legally transferred to, and became vested in, the new corporation, and he was, therefore, no longer indebted to the original corporation.

(3) That such transfer was not invalid against the claim of the plaintiff as a creditor of the original corporation, since his claim accrued after the transfer, and, even if it had accrued previously, yet the original corporation, in the absence of any fraudulent intent, had a right, for a valid consideration, to dispose of its property.

In Chase v. Vanderbilt, 62 N. Y. 307, it was held that where two or more railroad corporations consolidated and the new corporation assumed the obligation of the old one, the directors of the new corporation are not necessary or even proper parties to an action brought by the holder of preferred and guaranteed stock of one of the old corporations to enforce an alleged contract made by it to pay dividends upon such stock, but that if the plaintiff had cause of action at all, it was against the new corporation alone. See, also, *In re* National, etc., Assurance Co., L. R., 6 Ch. 393.

But the question as to whether the old corporation is absolved from liability depends largely upon the provisions of the statute under which the consolidation was effected. If the act provides that neither corporation by reason of the consolidation shall thereby be relieved from any liability then existing, the new corporation does not become liable directly to the creditors of the old for such liabilities. Shaw v. Norfolk Co. R. R. Co., 16 Gray, 407. In a Georgia case, Selma, etc., R. R. Co. v. Harbin, 40 Ga. 706, while an action was pending

SEC. 395. **Doctrine as to the rights of creditors of the consolidating companies.** — It is a general doctrine that, where the power to consolidate exists, the right so to do, in accordance with the mode

against a corporation, it was consolidated with another, the act providing that each of the companies was to continue liable for its liabilities incurred before the consolidation, and it was held that it was improper for the plaintiff in the suit to take a judgment against the consolidated company in its new name, without proper steps to bring the new company, as such, before the court, and that a judgment so taken was void.

A section of an amalgamation act provided that the conveyances, contracts, bonds, etc., made or entered into by the dissolved railway companies should remain valid in favor of the new company. Held, that under this provision, a person who was surety by bond to one of the companies before amalgamation, for the conduct of an employee, was liable to the new company for breaches of the bond committed after the amalgamation. Eastern Union Railway Co. v. Cochrane, 17 Jur. 1103. Where a clerk to a railway company had executed a bond, with surety, for the faithful discharge of his duty to one company, which was subsequently amalgamated, by act of parliament, with another company, saving to the consolidated company all remedies upon contracts to either, held, that an action would lie upon such bond for a breach committed before the amalgamation, notwithstanding the new company formed by the consolidation possessed additional lines of road. London, etc., Railway Co. v. Goodwin, 3 Exch. 320, 736. Defendant executed a note to a corporation, containing an agreement that "no change in the name, character, or management" of the corporation should affect the liability of the maker. The plaintiff corporation changed its name before the action which was brought in its new name, and the complaint stated this fact, and that the note was the plaintiff's property. Held, that a good cause of action was stated, and that a demurrer could not be sustained. Cumberland College v. Ish, 22 Cal. 641. Before the new corporation can levy any assessments upon the stockholders of the old corporation, the consolidation must be fully perfected in every detail, as required by the statute. Peninsular Railway Co. v. Thorp, 28 Mich. 506; Mansfield, etc., R. R. Co. v. Dunker, 30 id. 124, and it seems an election of directors of the new corporation must have been held. Mansfield, etc., R. R. Co. v. Dunker, *ante;* Midland Great Western Railway v. Leech, 3 H. L. Cas. 872.

Where the preliminary contracts by which two railway companies would necessarily interfere with each other's business were set on foot, each provided, that the managing committees, or directors, might "demise or sell the undertaking, or any part thereof, or amalgamate the same or any part thereof, *with any other railway,* or railways," and the directors of the two companies made, and carried into effect, an amalgamation of the two companies, held, that the amalgamation of the two companies came fairly within the preliminary contracts, and that an action for calls might be maintained against any shareholder in either company, who had executed the preliminary contracts. Cork & Youghal Railway Co. v. Paterson, 18 C. B. 414. Two companies competed for tender of leases of railways in France. Each proposed that half the capital should be subscribed for in England, and English committees were appointed. Neither company complied with the requirements of the French government as to deposits; and they were afterward united, and it was agreed that the then expenses of each committee should be separately paid by that body. Being still unable to make up the full amount of subscription, a union was negotiated between the united companies and a third company, and subsequently an agreement was formed. The original united company then determined to close their affairs, and meetings were held, at which (although the mode of the appropriation was variously represented) certain shares were appro-

authorized by law, cannot be defeated by the creditors of the consolidating corporations.

And the general rule is, that the rights of creditors against the old companies revive against the new one, created by the consolidation, as we have just noticed, and that it becomes substituted for the former ones. Provision is perhaps generally made by statute or by articles of agreement, as provided by law, for the payment of the creditors and the satisfaction of the obligations of the consolidating companies;[1] and sometimes these provide that such companies shall continue for the purpose of adjusting their outstanding obligations, including their torts.[2] But even where no such provision is made, but the consolidation is lawfully consummated, the new company has been held liable to all obligations of the former ones, from the very necessity of the case, and to prevent the failure of justice;[3] or as the trustee of the debtor corporation, on account of having its funds, which must be held for the payment of its debts, and which are properly chargeable in whosesoever hands they may be, except a *bona fide* holder for value, with the satisfaction of the same.[4]

SEC. 396. **Consolidation of corporations organized in different states.** — Questions as to the status of the consolidated company have

priated and given to the chairman of one of the English committees, who sold them at a premium. Some members of the English committee of the other of the two original companies filed their bill, praying an account of the produce of those shares, and for a division among those entitled after payment of all expenses. Several accounts were given of what passed at the meeting at which the appropriation was made. The court, assuming that the persons present had power to do what they did (there being no fraud proved), dismissed the bill. Rossmore v. Mowatt, 15 Jur. 238. A railroad corporation was organized under the general railroad law of Indiana of 1852, which law was by its terms liable to "be amended or repealed at the discretion of the legislature." The defendant subscribed for stock in this company. Subsequently, an act authorizing the consolidation of railroad companies was passed; and in pursuance thereof the corporation in question consolidated with another. It appeared, from its articles of association, that such consolidation was merely carrying out the purpose of its organization. Held, that the defendant was not exonerated from his subscription. Hanna v. Cincinnati & Fort Wayne R. R. Co., 20 Ind. 30.

[1] Prouty v. Lake Shore, etc., R. Co., 52 N. Y. 363.

[2] Selma, etc., R. Co. v. Harbin, 40 Ga. 706.

[3] Indianapolis, etc., R. Co. v. Jones, 29 Ind. 465; Paine v. Lake Erie, etc., R. Co., 31 id. 283; Columbus, etc., R. Co. v. Powell, 40 id. 37.

[4] Eaton & Hamilton R. Co. v. Hunt, 20 Ind. 463; Powell v. North Missouri R. Co., 42 Mo. 63.

been raised principally in reference to its domicile and the jurisdiction of the federal courts in cases in which it is a party. The general doctrine is, that for the purpose of conferring jurisdiction, it may be sued in the state where its principal office and its records are kept.[1] We have already considered the character of corporations as citizens, and the question as to their domicile, under the provision of the constitution of the United States, and the acts of congress relating to the judicial powers and jurisdiction of its courts, and the removal of causes from the state to the federal courts.[2] In reference to this question it is held, that in case of the lawful consolidation of corporations created in different states, "the jurisdictional effect of the existence of such a corporation, as regards the federal courts, is the same as that of a copartnership of individual citizens residing in different states."[3]

Sec. 397. **Same continued.** — Where there was a consolidation of the stock of a railroad company created in Wisconsin, with one in Illinois, but in so consolidating they failed to pursue the terms of their charters, but the contract of consolidation was subsequently confirmed by an act of the legislature of the state of Illinois, it was held that it was recognized as a corporation of that state, and that a mortgage subsequently executed by the directors in the name of the consolidated company, conveying the property of the corporation in the state of Illinois, was valid as a mortgage of the Illinois corporation.

In reference to the effect of the consolidation in this case, Mr. Justice Lawrence remarks: "While it created a community of stock and of interest between the two companies, it did not convert them into one company in the same way and to the same degree that might follow a consolidation of two companies within the same state. Neither Illinois nor Wisconsin, in authorizing consolidation, could have intended to abandon all jurisdiction over its own corporation created by itself. Indeed, neither state

[1] Culbertson v. Wabash Nav. Co., 4 McLean, 544; Jenkins v. California Stage Co., 22 Cal. 537.

The same rules generally prevail in reference to the venue of suits as in case of natural persons. See Central Bank of Georgia v. Gibson, 11 Ga. 453; Speer v. Atlanta, etc., R. Co., 30 id. 135; Edwards v. Union Bank, 1 Fla. 136; Cincinnati, etc., R. Co. v. Knowlton, 11 Ind. 339; Thorn v. Central R. Co., 26 N. J. L. 121.

[2] See *ante*, chap. 13.

[3] Railroad Company v. Harris, 12 Wall. 65. See, also, Railroad Co. v. Whitton, 18 id. 270.

could take jurisdiction over the property or proceedings of the corporation beyond its own limits. * * * A corporation cannot be created by the co-operating legislation of two states so as to be the same legal identity in both states; and where two states have each created a corporation with the same name, for the same purposes, and composed of the same natural persons, it must, nevertheless, be considered as a distinct corporation in each state." [1]

[1] Racine, etc., R. Co. v. Farmers' Loan & T. Co., 49 Ill. 331; McGregor v. Erie R. Co., 6 Vroom, 115. See, also, State v. Metz, 3 id. 199; Richardson v. Vermont, etc., R. Co., 44 Vt. 613; Attorney-General v. Boston, etc., R. Co., 109 Mass. 99; Sprague v. Hartford, etc., R. Co., 5 R. I. 233; Allegheny Co. v. Cleveland, etc., R. Co., 51 Penn. St. 228; Cleveland, etc., R. Co. v. Speer, 56 id. 325; Commonwealth v. Pittsburgh, etc., R. Co., 58 id. 26; State v. Northern Cent. R. Co., 18 Md. 193; Baltimore, etc., R. Co. v. Glenn, 28 id. 287; Goshoen v. Supervisors, 1 W. Va. 308; Baltimore, etc., R. Co. v. Supervisors, 3 id. 319; Farmers' Bank v. Gettinger, 4 id. 305; Baltimore, etc., R. Co. v. Gallahue, 12 Gratt. 658; Aspinwall v. Ohio, etc., R., 20 Ind 492; Union, etc., R. Co. v. East Tenn. R. Co., 14 Ga. 327; Attorney-General v. Railroad, 35 Wis. 425.

CHAPTER XVII.

EMINENT DOMAIN.

SEC. 398. What the right of eminent domain is.
SEC. 399. How the right can be enjoyed.
SEC. 400. The authority to grant the right is in the legislature.
SEC. 401. What are public uses which justify the exercise of the right.
SEC. 402. Who is to determine the question of public use.
SEC. 403. Limit of the right.
SEC. 404. Who is to determine in reference to the extent, amount or quantity of property to be taken.
SEC. 405. Same continued.
SEC. 406. Where the corporation takes more land than is required.
SEC. 407. Compensation.
SEC. 408. Same continued.
SEC. 409. Damages — mode of estimating.
SEC. 410. Elements of damages which may be considered.
SEC. 411. Lands injuriously affected but not taken.

SEC. 398. **What the right of eminent domain is.** — The right of eminent domain, as applicable to private corporations, is the power which exists in the state as the sovereign authority, to appropriate the property of individuals for the public benefit, when the public safety, convenience, or welfare may require it, and on due compensation being rendered therefor to the owner.

The doctrine is sometimes claimed to rest upon an implied reservation in the sovereign authority, from which, so far as relates to real estate, the individual rights are derived, to resume the rights thus conferred in the contingencies referred to. And it consists, not only in the authority to resume the whole estate, but any right or interest therein. It is the rightful authority, which exists in every sovereignty to control and regulate those rights of a public nature which pertain to its citizens in common, and to appropriate and control individual property as the public safety, necessity, convenience or welfare may demand.[1]

[1] The right of taking private property for public purposes is inseparably attached to national empire and sovereignty; Jones v. Walker, 2 Paine (U. S. C. C.), 688; and it is a necessary incident of every government, and the necessity for the exercise of the right is a matter of which

The constitution of the United States and of the various states inhibits the taking of private property for public purposes, under the right of eminent domain, without just compensation;[1] but the right of the sovereign to appropriate individual property, under the circumstances referred to, seems to be generally recognized, and to be acknowledged in the jurisprudence of all civilized people.[2]

This right of eminent domain, as we have seen, is not limited to the real estate of individuals and natural persons, but may extend to and be exercised in reference even to the property and

the government must judge; the only restraint upon the exercise of the right being, that just compensation must be made for property taken. Bonaparte v. Camden, etc., R. R. Co., Bald. (U. S. C. C.) 205, 220; Cooper v. Williams, 4 Ohio, 253; Spring v. Russell, 7 Me. 273; M'Masters v. Commonwealth, 3 Watts (Penn.), 292, 294; Henry v. Underwood, 1 Dana (Ky.), 245, 247; O'Hara v. Lexington, etc., R. R. Co., id. 232; Perry v. Wilson, 7 Mass. 393, 395; De Varaigne v. Fox, 2 Blatchf. 95; Parkham v. Decatur County, 9 Ga. 341; Donnaher v. State, 10 Miss. 649; Brown v. Beatty, 34 Miss. 227; Coster v. Tide Water Co., 18 N. J. Eq. 54; Varick v. Smith, 5 Paige (N. Y.), 137; Harris v. Thompson, 9 Barb. (N. Y.) 305. But, as previously intimated, even the state itself cannot exercise or delegate this power without making just compensation for the property taken. Hall v. Boyd, 14 Ga. 1; Royston v. Royston, 21 id. 161; Nesbitt v. Trumbo, 39 Ill. 110; Bruning v. New Orleans, etc., Banking Co., 12 La. Ann. 541; Hoye v. Swan, 5 Md. 237; Dickey v. Tennison, 27 Mo. 373; Concord R. R. v. Greely, 17 N. H. 47; Dunham v. Williams, 36 Barb. (N. Y.) 136; Grim v. Wissenberg S. Dist., 57 Penn. St. 433.

The provision in the constitution, declaring that "private property shall not be taken for public uses without just compensation," does not prohibit the legislature from authorizing a temporary exclusive occupation of the land of an individual, as the incipient proceeding to the acquisition of a title to it, or to an easement in it for a public use, although such occupation may be more or less injurious to the owner. But such occupation becomes unlawful unless the title or the easement is acquired within a reasonable time; otherwise the occupiers become trespassers *ab initio*. In the case of temporary occupation by a railroad company, two years was held, under the circumstances of the case, not an unreasonable time. Nichols v. Somerset, etc., R. R. Co., 43 Me. 356; Pollard's Lessees v. Hagen, 3 How. (U. S.) 223; Beekman v. Saratoga, etc., R. Co., 3 Paige, 45.

[1] Amend. Const. U. S., art. 5; Vattel, B. 1, chap. 20, § 244.

[2] Field on Dam., § 845. See, also, Brown v. Beatty, 34 Miss. 227; Taylor v. Porter, 4 Hill, 143; HOGEBOOM, J., in People v. Mayor, etc., N. Y., 32 Barb. 112; Heyward v. Mayor, etc., N. Y., 7 N. Y. 314. In the case of Beekman v. Saratoga, etc., R. Co., *supra*, Chancellor WALWORTH observes: "Notwithstanding the grant to individuals, the highest and most exact idea of property remains in the government, or in the aggregate body of the people in their sovereign capacity; and they have a right to resume the possession of the property in the manner directed by the constitution and laws of the state, whenever the public interest requires it. This right of resumption may be exercised not only where the safety, but also where the interest or even the expediency of the state is concerned, or where the land of the individual is wanted for a road, canal or other public improvement."

rights, franchises and easements of corporations, however exclusive the grant may be, provided, however, that in all cases, adequate compensation be first made therefor.[1]

[1] Piscataqua Bridge v. N. H. Bridge, 7 N. H. 35; Northern R. Co. v. C. R. Co., 7 Fost. 183; State v. Canterbury, 8 id. 195; Crosby v. Hanover, 36 N. H. 404; Cooley on Const. Lim. 526 and notes. In relation to the condemnation of the rights of private corporations acquired under and by virtue of the charter and contract with the state, see West River Bridge Co. v. Dix, 6 How. 507; S. C., 16 Vt. 446; Richmond R. Co. v. Louisiana R. Co., 13 id. 71; Binghamton Bridge case, 3 Wall. 51; Boston & Lowell R. Co. v. Salem & Lowell R. Co., 2 Gray, 1; Bridge Co. v. Lowell, 4 id. 474; Boston Water Power Co. v. Boston & Wor. R. Co., 23 Pick. 360; Springfield v. Connecticut R. Co., 17 Conn. 40; id. 454; *In re* Kerr, 42 Barb. 119; Bridge Co. v. Hoboken Co., 2 Beas. 81; Shorter v. Smith, 9 Ga. 529; Railroad Co. v. Kenney, 39 Ala. (N. S.) 307; California Telegraph Co. v. Alta Telegraph Co., 22 Cal. 398; Illinois & Mich. C. Co. v. Chicago & R. I. R. Co., 14 Ill. 321. In the West River Bridge case, *supra*, DANIEL, J., says: "No state, it is declared, shall pass a law impairing the obligation of contracts; yet, with this concession constantly yielded, it cannot be justly disputed that in every political sovereign community there inheres necessarily the right and the duty of guarding its own existence, and of protecting and promoting the interests and welfare of the community at large. This power and this duty are to be exerted not only in the highest acts of sovereignty and in the external relations of government; they reach and comprehend, likewise, the interior polity and relations of social life, which should be regulated with reference to the advantage of the whole society. This power, denominated the eminent domain of the state, is, as its name imports, paramount to all private rights vested under the government, and these last are, by necessary implication, held in subordination to this power, and must yield in every instance to its proper exercise. The constitution of the United States, although adopted by the sovereign states of this union, and proclaimed in its own language to be the supreme law for their government, can, by no rational interpretation, be brought to conflict with this attribute in the states; there is no express delegation of it by the constitution, and it would imply an incredible fatuity in the states to ascribe to them the intention to relinquish the power of self-government and self-preservation. A correct view of this matter must demonstrate, moreover, that the right of eminent domain in government in nowise interferes with the inviolability of contracts; that the most sanctimonious regard for the one is perfectly consistent with the possession and exercise of the other.

"Under every established government, the tenure of property is derived mediately or immediately from the sovereign power of the political body organized in such mode or exerted in such way as the community or state may have thought proper to ordain. It can rest on no other foundation, can have no other guarantee. It is owing to these characteristics only in the original nature of tenure that appeals can be made to the laws, either for the protection or assertion of the rights of property. Upon any other hypothesis the law of property would be simply the law of force. Now, it is undeniable that the investment of property in the citizen by the government, whether made for a pecuniary consideration or founded on conditions of civil or political duty, is a contract between the state, or the government acting as its agent, and the grantee; and both the parties thereto are bound in good faith to fulfill it. But into all contracts, whether made between states and individuals, or between individuals only, there enter conditions which arise not out of the literal terms of the contract itself; they are superinduced by the pre-existing and higher authority of the laws of nature, of nations, or of the community to which the parties belong; they are always presumed, and must be presumed to be

By virtue of this supreme power of the state, timber, gravel, or stone may be taken,[1] and buildings removed or destroyed.[2] So

known and recognized by all, are binding upon all, and need never, therefore, be carried into express stipulation, for this could add nothing to their force. Every contract is made in subordination to them, and must yield to their control as conditions inherent and paramount wherever a necessity for their execution shall occur. Such a condition is the right of eminent domain. This right does not operate to impair the contract affected by it, but recognizes its obligation in the fullest extent, claiming only the fulfillment of an essential and inseparable condition. Thus, in claiming the resumption or qualification of an investiture, it insists merely on the true nature and character of the right invested. The impairing of contracts inhibited by the constitution can scarcely, by the greatest violence of construction, be made applicable to the enforcing of the terms or necessary import of a contract; the language and meaning of the inhibition were designed to embrace proceedings attempting the interpolation of some new term or condition foreign to the original agreement, and, therefore, inconsistent with and violative thereof. It then being clear that the power in question not being within the purview of the restriction imposed by the tenth section of the first article of the constitution, it remains with the states to the full extent in which it inheres in every sovereign government to be exercised by them in that degree that shall by them be deemed commensurate with public necessity. So long as they shall steer clear of the single predicament denounced by the constitution; shall avoid interference with the obligation of contracts, the wisdom, the mode, the policy, the hardship of any exertion of this power, are subjects not within the proper cognizance of this court. This is, in truth, purely a question of power; and conceding the power to reside in the state government, this concession would seem to close the door upon all further controversy in connection with it. The instances of the exertion of this power in some mode or other from the very foundation of civil government have been so numerous and familiar, that it seems somewhat strange at this day to raise a doubt or question concerning it. In fact, the whole policy of the country, relative to roads, mills, bridges, and canals, rests upon this single power under which lands have been always condemned; and without the exertion of this power not one of the improvements just mentioned could be constructed. In our country it is believed the power was never, or at any rate rarely, questioned until the opinion seems to have obtained that the right of property in a chartered corporation was more sacred and intangible than the same right could possibly be in the person of the citizen; an opinion which must be without any grounds to rest upon, until it can be demonstrated either that the ideal creature is more than a person, or the corporeal being is less. For, as a question of the power to appropriate to public uses the property of private persons resting upon the ordinary foundations of private right there would seem to be room neither for doubt nor difficulty. A distinction has been attempted in argument between the power of a government to appropriate for public uses property which is corporeal, or may be said to be in being, and the like power in the government to resume or extinguish a franchise. The distinction thus attempted we regard as a refinement which has no foundation in reason, and one that, in truth, avoids the true legal or constitutional question in these causes; namely, that of the right in private persons in the use or enjoyment of their private property to control and actually to prohibit the power and duty of the government to advance and protect

[1] Watkins v. Walker Co., 18 Tex. 585; Wheelock v. Young, 4 Wend. 647; Lyon v. Jerome, 15 id. 569; Jerome v. Ross, 7 Johns. Ch. 315; Bliss v. Hosmer, 15 Ohio, 44.

[2] Wells v. Somerset, etc., R. Co., 47 Me. 345.

may legal and equitable interests, streams of water,[1] corporate franchises, and every species of property be appropriated under this right.[2]

the general good. We are aware of nothing peculiar to a franchise which can class it higher, or render it more sacred than other property. A franchise is property and nothing more; it is incorporeal property, and is so defined by Justice Blackstone, when treating in his second volume, chap. 3, p. 26, of the 'Rights of Things.' It is its character of property only which imparts to it value, and alone authorizes in individuals a right of action for invasions or disturbances of its enjoyments. *Vide* Bl Com., vol. 3, chap. 16, p. 235, as to injuries to this description of private property, and the remedies given for redressing them. A franchise, therefore, to erect a bridge, to construct a road, to keep a ferry, and to collect tolls upon them, granted by the authority of the state, we regard as occupying the same position with respect to the paramount power and duty of the state to promote and protect the public good as does the right of the citizen to the possession and enjoyment of his land under his patent or contract with the state, and it can no more interpose any obstruction in the way of their just exertion. Such exertion we hold to be not within the inhibition of the constitution and no violation of a contract. The power of a state in the exercise of eminent domain to extinguish immediately a franchise it had granted, appears never to have been directly brought here for adjudication, and consequently has not been heretofore formally propounded from this court; but in England this power, to the fullest extent, was recognized in the case of the Governor and Company of the Cast Plate Manufacturers v. Meredith, 4 T. R. 794, and Lord Kenyon, especially in that case, founded solely upon this power the entire policy and authority of all the road and canal laws of the kingdom."

And in the same case Mr. Justice McLean says: "The state cannot modify or repeal a charter for a bridge, a turnpike-road, or a bank, or any other private charter, unless the power to do so has been reserved in the original grant. But no one doubts the power of the state to take a banking-house for public use, or any other real or personal property owned by the bank. In this respect, a corporation holds property subject to the eminent domain, the same as citizens. The great object of an act of incorporation is to enable a body of men to exercise the faculties of an individual. Peculiar privileges are sometimes vested in the body politic, with the view of advancing the convenience and interests of the public.

"The franchise, no more than a grant for land, can be annulled by the state. These muniments of right are alike protected. But the property held under both is held subject to a public necessity, to be determined by the state. In either case, the property being taken, renders valueless the evidence of right. But this does not, in the sense of the constitution, impair the contracts. The bridge and the ground connected with it, together with the right of exacting toll, are the elements which constitute the value of the bridge. The situation and productiveness of the soil constitute the value of land. In both cases an estimate is made of the value, under prescribed forms, and it is paid when the property is taken for public use. And in these cases the evidences of right are incidents to the property. No state could resume a charter, under the power of appropriation, and carry on the functions of the corporation. A bank charter could not be thus taken and the business of the bank continued for public purposes. Nor could this bridge have been taken by

[1] People v. Mayor, etc., of N. Y., 32 Barb. 102; Bailey v. Miltenberger, 31 Penn. St. 37; Gardner v. Newburgh, 2 Johns. Ch. 162.

[2] Springfield v. Connecticut Riv. R. Co., 4 Cush. (Mass.) 63. A franchise to build and maintain a bridge may be taken for a highway whenever the legislature deems that a public exigency for such new use exists. Cen-

SEC. 399. **How the right can be enjoyed.** — The right of eminent domain is an incident of sovereignty, and can only be enjoyed by

the state and kept by it as a toll-bridge. This could not be called an appropriation of private property to public purposes. There would be no change in the use, except the application of the profits, and this would not bring the act within the power. The power must not only be exercised *bona fide* by a state, but the property, not its product, must be applied to public use.

"It is argued that if the state may take this bridge, it may transfer it to other individuals under the same or different charter. This the state cannot do. It would be, in effect, taking the property from A. to carry it to B. The public purpose for which the power is exerted must be real and not pretended. If, in the course of time, the property, by a change of circumstances, should no longer be required for public use, it may be otherwise disposed of. But this is a case not likely to occur. The legality of the act depends upon the facts and circumstances under which it was done. If the use of land taken by the public for a highway should be abandoned, it would revert to the original proprietor and owner of the fee."

tral Bridge v. Lowell, 4 Gray, 474; Young v. Harrison, 6 Ga. 130. Indeed, it may be stated, as a general rule, that, although the charter of a corporation is a contract between the state and the corporators, yet it, like other contracts, is made subject to the right of eminent domain in the state; and the property of a corporation and its franchises may therefore be taken for public uses, like the property of individuals, without violating the obligation of the contract. West River Bridge Co. v. Dix, 6 How. (U. S.) 507; Alabama, etc., R. R. Co. v. Kenny, 39 Ala. 307; State v. Noyes, 47 Me. 189; Peirce v. Somersworth, 10 N. H. 369; Crosby v. Hanover, 36 N. H. 404; Miller v. New York, etc., R. R. Co., 21 Barb. 513; Red River Bridge Co. v. Clarksville, 1 Sneed, 176; Armington v. Barnett, 15 Vt. 745; White River Turnpike Co. v. Vermont, etc., R. R. Co., 21 Vt. 590; James River, etc., Co. v. Thompson, 3 Gratt. 270. And the state may delegate this power to a corporation either public or private, either by special or general laws. Backus v. Lebanon, 11 N. H. 19, and the right may even be conferred upon a foreign corporation. Matter of Townsend, 39 N. Y. 171; Morris Canal, etc., Co. v. Townsend, 24 Barb. 658. The right may be granted conditionally, and until the conditions are performed, it does not exist, or if the conditions are subsequent, and not performed, the right ceases, Stanford v. Worn, 27 Cal. 171; and under no circumstances can the right be examined without making proper and just compensation for the property taken. Hamilton v. Annapolis, etc., R. R. Co., 1 Md. Ch. 107; Harness v. Chesapeake, etc., R. R. Co., id. 248; Boston, etc., R. R. Co. v. Salem, etc., R. R. Co., 2 Gray, 1; Petition of Mount Washington Road Co., 35 N. H. 134; Ten Eyck v. Delaware, etc., Canal, 18 N. J. L. 200; Star v. Camden R. R. Co., 24 N. J. L. 592; Carson v. Coleman, 11 N. J. Eq. 106; Gardner v. Trustees of Newburgh, 2 Johns. Ch. 162; Bonaparte v. Camden, etc., R. R. Co., 1 Baldw. (U. S. C. C.) 205; Haight v. Aqueduct, 4 Wash. 601; People v. White, 11 Barb. 26; Hartwell v. Armstrong, 19 id. 166; Buffalo Bayou, etc., R. R. Co. v. Terris, 26 Tex. 588.

In the latter case the court held, that it was competent for the legislature, under the right of eminent domain, to grant an authority to a railroad company to lay and maintain a railway over a highway, longitudinally; but that the intention to grant land, already appropriated to a public use, must be shown by express words or by necessary implication.

In this case Chief-Justice SHAW observes:

"We are then brought to the main question, namely, whether the defendants had authority, by the act of 1845, chap. 170, § 1, granting them the right to build this branch, to build it over and along a public way previously established. It is stated and admitted that Front street, in Cabotville, is partly a highway, laid out and established by the county commissioners,

the exercise of legislative authority. The right may, however, be conferred by the legislature, representing the supreme author-

and partly a townway, laid out by the selectmen, and the laying out ratified by the vote of the town. These two modes of establishing ways are both legal; and though one is called a highway, and the other a townway, yet, for most purposes, both are regarded as public ways, for obstructing which any party is liable to indictment, as for a nuisance, and for damage in consequence of any defect in which the town is liable to the sufferer. For all purposes of this inquiry, therefore, there is no distinction between them.

"As the giving of authority to build and maintain a railroad is the grant of a right to take private property for a public use, and to deal with property appropriated to other public easements and uses, it is manifestly a high exercise of the sovereign right of eminent domain, and can only be effected by the clear and unequivocal authority of the legislature, who are constituted the judges of what the public good requires.

"It is somewhat remarkable that, in a matter so deeply affecting private rights and interests, the precise location or line of railroad on the ground is not fixed by the act granting the power, nor is it provided that it shall be fixed by any board of public officers, who may be supposed to act impartially. In laying out highways, the precise course of location is fixed by the county commissioners, formerly the court of sessions, a public body of disinterested officers, supposed to act as impartial arbitrators between the public and individual proprietors.

"But in railroads, the authority to the corporation is to locate, construct, and complete a railroad within certain termini, giving the general direction, but leaving the precise location to be determined, not by the county commissioners, but by the company. The corporation must file their location with the commissioners within one year, defining the courses, distances, and boundaries, but the commissioners have no power of prescribing or altering it. Rev. Stats., chap. 37, § 75. So, after having made a location, the corporation may vary it, and take other lands within the limits prescribed by their act of incorporation, and file a location of such variations. Rev. Stats., chap. 39, § 73. And, on the petition of any railroad corporation, the commissioners may authorize an original location, or an existing location, to be altered, without the limits prescribed by the charter of such corporation. Rev. Stats., chap. 39, § 74. Considering how large the powers are which are thus vested in railroad corporations, the court are of opinion that they ought to be construed with a good degree of strictness, and not enlarged by construction.

"The authority, under which the defendants claim to have located and laid out the railroad in question, is found in the act of 1845, chap. 170, which was passed in addition to the act of 1842, chap. 41, by which this company was incorporated. The act of 1845 provides (§ 1) that the company may construct and open for use a branch railroad from the main track of the road, in Cabotville, to and near the mills in said village, passing up the south bank of Chicopee river, near the same, and thence extending up said river to the Chicopee Falls village; the location of that part of the branch now in question, from the main road to the mills in Cabotville, to be filed in one year from the passage of the act, and that to Chicopee Falls village in five years. The act further provides (§ 3) that said corporation, in the construction of their railroad and branch, shall have all the powers and privileges, and be subject to all the duties, restrictions, and liabilities set forth in the Rev. Stats., chap. 44, and in that part of chap. 39 which relates to railroads.

"It is the common case of an act, authorizing the location and construction of a railroad between termini, one of which, the junction, as the *terminus a quo* is fixed, and the other, the *terminus ad quem*,' to and near the mills in Cabotville;' and the course or line is no more exactly designated than by the terms 'passing up the south bank of Chicopee river, and near the same,' and thence extending up said

ity of the state ; and authority is usually conferred by it, by some general statutes upon corporations, by means of which delegated

river to Chicopee Falls village. The beautiful and apparently accurate survey and a plan of a part of Cabotville, and of the river, the streets, and the track of the railroad, exhibit all these localities to great advantage, and present the question at a single glance.

"As no company or persons have authority to lay out a railroad, except so far as such power is conferred by the legislature, the court are of opinion, that by a grant of power by a legislative act, to lay out a railroad between certain termini, where the precise course and direction are not prescribed, but are left to the corporation to be located between the termini, no authority is given *prima facie* to lay such railroad on and along an existing public highway longitudinally or, in other words, to take the road-bed of such highway as the track of their railroad. The two uses are almost, if not wholly, inconsistent with each other; so that taking the highway for a railroad will nearly supersede the former use to which it had been legally appropriated. The whole course of legislation, on the subject of railroads, is opposed to such a construction. The crossing of public highways by railroads is obviously necessary and, of course, warranted; and numerous provisions are industriously made to regulate such crossings by determining when they shall be on the same and when on different levels, in order to avoid collision; and when on the same level, what gates, fences and barriers shall be made and what guards shall be kept to insure safety. Had it been intended that railroad companies, under a general grant, should have power to lay a railroad over a highway longitudinally, which ordinarily is not necessary, we think that would have been done in express terms, accompanied with full legislative provisions for maintaining such barriers and modes of separation as would tend to make the use of the same road, for both modes of travel, consistent with the safety of travelers on both. The absence of any such provisions affords a strong inference that, under general terms, it was not intended that such a power should be given.

"But the court are of opinion that it is competent for the legislature, under the right of eminent domain, to grant such an authority. The power of eminent domain is a high prerogative of sovereignty, founded upon public exigency, according to the maxim: *Salus reipublicæ lex suprema est*, to which all minor considerations must yield and which can only be limited by such exigency. The grant of land for one public use must yield to that of another more urgent. Land appropriated to a public walk or training-field may, in case of war, be required for a citadel when it is the only ground which, in a military point of view, will command all the defenses of a place in case of a hostile attack. Chesapeake & Ohio Canal Co. v. Baltimore & Ohio Railroad Co., 4 G. & J. 1; Boston Water-Power Co. v. Boston & Worcester Railroad Corp., 23 Pick. 360; Wellington et al., Petitioners, 16 id. 87, 100.

"But when it is the intention of the legislature to grant a power to take land already appropriated to another public use, such intention must be shown by express words or by necessary implication. There may be such a necessary implication. Every grant of power is intended to be efficacious and beneficial and to accomplish its declared object; and carries with it such incidental powers as are requisite to its exercise. If then the exercise of the power granted draws after it a necessary consequence, the law contemplates and sanctions that consequence. Take the familiar case of the Notch of the White Mountains, a very narrow gorge, which affords the only practicable passage for many miles through that mountain range. A turnpike road through it has already been granted. Suppose the gorge not wide enough to accommodate another road but the legislature of New Hampshire, in order to accommodate a great line of public travel, should grant power to lay a railroad on that line they would, by necessary implication, grant a power to take some portion of the road-bed of the turnpike."

authority such corporations, constituted for various purposes, are enabled to prosecute various enterprises of public as well as of private interest.[1] The right to delegate this authority rests upon the supposed public benefit to be derived from the exercise of the power by the corporation on which it is conferred. "Upon the principle of public benefit," observes Chancellor WALWORTH, "not only the agents of the government but also individuals and corporate bodies have been authorized to take private property for the purpose of making highways, turnpike roads and canals; of erecting and constructing wharves and basins; of establishing ferries; of draining swamps and marshes and of bringing water to cities and villages. In all such cases the object of the legislative grant of power is the public advantage expected from the contemplated improvement or enterprise, whether it be effected directly by the agents of the government, or through the medium of corporate bodies or of individual enterprise."[1]

SEC. 400. **The authority to grant the right is in the legislature.**— The authority to grant the exercise of the right of eminent domain resides in the legislature as the representative of the state. It is a legislative function to determine whether the enterprise undertaken on the part of an individual or corporate body is of sufficient public interest and utility to justify the transferring of the sovereign power to take private property for the purpose of carrying out such enterprise.[2]

And, with the legislative determination in this respect, the

[1] Buffalo, etc., R. Co. v. Brainard, 9 N. Y. 100; People v. Smith, 21 id. 595; Wilson v. Marsh Co., 2 Pet. 251; Bloodgood v. Railroad Co., 18 Wend. 9; West River Bridge Co. v. Dix, 6 How. 507; Mercer v. Railroad Co., 36 Penn. St. 99; Scudder v. Trenton, etc., Falls Co., Saxt. (N. J.) 694; Swan v. Williams, 2 Mich. 427; Embury v. Connor, 3 N. Y. 511; Alexander v. Baltimore, 5 Gill, 383; Sedgw. on Const. Law, 517; Curry v. Mt. Sterling, 15 Ill. 320; West v. Blake, 4 Blackf. (Ind.) 234; Stevens v. Middlesex Canal, 12 Mass. 466; Boston Mill Dam v. Newman, 12 Pick. 464; Gilmer v. Lime Paint, 18 Cal. 229; Armington v. Barnet, 15 Vt. 750; White River Turnpike Co. v. Central R., 21 id. 590; Bradley v. New York & N. H. R. Co., 21 Conn. 294; Olmstead v. Camp, 33 id. 532; Eaton v. Boston C. & M. R. Co., 51 N. H. 504.

[1] Beekman v. Saratoga, etc., R. Co., 3 Paige, 73; Rensselaer, etc., R. Co. v. Davis, 43 N. Y. 137; Railroad Co. v. Kip, 46 id. 546; *In re* Fowler, 58 id. 60; Kramer v. C. & P. R. Co., 5 Ohio St. 146.

[2] People v. Smith, 21 N. Y. 595.

judiciary department of the government cannot interfere. Whether the contemplated project, be it a matter of individual or of corporate action, is of sufficient public interest to authorize the conferring of the right to exercise the power of eminent domain, is for the legislature alone, and with the exercise of its discretion the judiciary of the state has no right to interfere.[1] But if attempts are made under the authority granted to take property under the claim of right of eminent domain, when in fact it is not warranted by the circumstances of the case, or the appropriation would not subserve public purposes or be of public utility, the courts have power to interfere.[2] If, however, the use for which it is taken has been declared by the legislature to be of public utility, the courts will hold it to be such unless the contrary clearly appears.[3]

SEC. 401. **What are public uses which justify the exercise of the right.** — There is a class of pursuits, purposes and enterprises, usually the object of private corporate undertakings, that are generally, if not universally, conceded to be of such public use and utility as to authorize the grant of the right of eminent domain to such persons or associations as undertake to carry them out. Thus it is held that the building or construction of turnpike and plank-roads, canals, railroads, aqueducts, sewers, water-works, telegraph lines and gas-works, are of public use and advantage, and that in reference to these various objects, as well as many others, the public have such an interest, although projected and undertaken by private associations or corporations, as to authorize the conferring upon such bodies the power to exercise the right of eminent domain; and under this power to condemn private property of any kind that may be required to accomplish the object.[4]

[1] Tidewater Co v. Coster, 18 N. J. Eq. 518; S. C., id. 55; 2 Kent's Com. 340; Sedgw. on Const. Law, 511, 514.

[2] Talbot v. Hudson, 16 Gray, 417; Water-Works Co. v. Burkhart, 41 Ind. 364; Scudder v. Trenton D. F. Co., Saxt. (N. J.) 694; Cottrill v. Myrick, 13 Me. 222; Concord R. Co. v. Greely, 17 N. H. 47; People v. Salem, 20 Mich. 452; Bankhead v. Brown, 25 Iowa, 540; Spear v. Blairsville, 50 Penn. St. 150; Sadler v. Langham, 34 Ala. 311.

[3] Bankhead v. Brown, 25 Iowa, 540; Olmstead v. Camp, 33 Conn. 551; Tyler v. Beacher, 44 Vt. 648; Loughbridge v. Harris, 42 Ga. 500.

[4] Id.; New York & H. R. R. Co. v. Kip, 46 N. Y. 546; Buffalo, etc., R. Co. v. Brainard, 9 id. 100; Olcott v.

On the other hand, there is a class of private enterprises, in relation to which the public benefit to be derived from their prosecution is not so manifest.

Supervisors, 16 Wall. 678; Bonaparte v. C. & A. R. Co., Bald. 205; Bradley v. New York, etc., R. Co., 21 Conn. 294; Davis v. Tuscumbia, etc., R. Co., 4 S. & P. 421; Brown v. Beatty, 34 Miss. 227; Swan v. Williams, 2 Mich. 427; Weir v. St. Paul R. Co., 18 Minn. 155; Harvey v. Thomas, 10 Watts, 65; New Central Coal Co. v. George's Creek Coal, etc., Co., 37 Md. 537; San Francisco A. & S. R. Co. v. Caldwell, 31 Cal. 367; Gibson v. Mason, 5 Nev. 283.

See, also, Bloomfield Gas Co. v. Richardson, 63 Barb. 437, where the question of public use in relation to a gas for illuminating a city is considered, and the power to confer the right of eminent domain upon a corporation organized for the manufacture of gas for such a purpose is discussed; and where it is held that the legislature is authorized to confer the right in such cases.

All purely governmental purposes, whether carried by the state itself through some of its departments or by local governments such as those of counties and towns. Under this class are public school-houses; Williams v. School District, 33 Vt. 271; forts; Gilmer v. Lime Paint, 19 Cal. 229; and this class would undoubtedly include buildings for state-houses, capitols, court-houses, public prisons and the like. All means and methods for the transit of passengers or goods, whether constructed by the state or by private enterprise. This class includes public highways, turnpikes, bridges, railroads, canals, docks and wharves. Measures of police, and especially those designed to promote health. In this class there are several particular instances not resembling each other in their outward and physical features, but it will be seen that in all of them the element which makes the use "public" belongs to that branch of governmental functions termed "police," and in most of them this element is purely sanitary. This class includes water-works to supply cities with water. Reddall v. Bryan, 14 Md. 444; Burden v. Stein, 27 Ala. 104; Lumbard v. Stearns, 4 Cush. 60; Mayor, etc., v. Bailey, 2 Denio, 452; per Gardiner, President. Provision and means for draining swamps, marshes and lowlands. Hartwell v. Armstrong, 19 Barb. 166; People v. Nearing, 27 N. Y. 306; Anderson v. Kerns Draining Co., 14 Ind. 199, 202. This last case expressly holds that draining for sanitary purposes is a public use, but for other purposes is not. Provisions and means for removing dams and permitting stagnant and offensive waters to flow off, thus abating a great public nuisance and rendering a whole district salubrious which was before pestilential. Miller v. Craig, 12 N. J. Eq. 175; Talbot v. Hudson, 16 Gray, 417; Dingley v. Boston, 100 Mass. 544. Drains and sewers in cities. Hildreth v. Lowell, 11 Gray, 345. Public burying-grounds. Edwards v. Stonington Cemetery Assoc., 20 Conn. 466. The cases generally, that is throughout the United States, go no further than the foregoing. In Massachusetts, Connecticut, and perhaps in a very few other states, statutes have existed from a very early day known as the "flowage acts," by which land is permitted to be taken for mill-dams, etc. These statutes form part of the peculiar local systems of those states, and have been sustained on the ground that the means of promoting manufacture was a public use. See Hazen v. Essex Co., 12 Cush. 475; Boston Mill Dam Co. v. Newman, 12 Pick. 467, and many other Massachusetts cases; Olmstead v. Camp. 33 Conn. 532; Todd v. Austin, 34 id. 78. In the latter case the necessities of the position and the logic of the judge force him to hold that "whenever a person carries on any business, and furnishes articles which members of the community find it convenient or advantageous to buy, then his business is a public use." This is the *reductio ad absurdum*. It is saying that the legislature may

Thus, in the case of companies or private corporations, organized for manufacturing purposes, the right to authorize them to take private property, necessary or convenient for carrying out their purposes, has been a question on which the authorities are divided.[1] Saw-mills, grist-mills, and various other manufactories, are certainly a public necessity; and while the country is new and capital not easily attainable for their erection, it sometimes seems to be essential that the government should offer large inducements to parties who will supply this necessity. Before steam came into use, water was almost the sole reliance for motive power; and, as reservoirs were generally necessary for this purpose, it would sometimes happen that the owner of a valuable mill-site was unable to render it available, because the owners of lands which must be flowed to obtain a reservoir would neither consent to the construction of a dam, nor sell their lands except at extravagant and inadmissible prices. The legislatures in some of the states have taken the matter in hand, and have surmounted the difficulty, some by authorizing the land to be appropriated, and at other times permitting the erection of the dam, but requiring the mill-owner to pay annually to the proprietor of the land the damages caused by the flowing, to be assessed in some impartial mode. The reasons of such statutes have been growing

empower a person to take private property to carry on every trade or occupation conceivable. It utterly abolishes the word "public" from the constitutional provisions. These doctrines have not been followed to any extent in other states. In Alabama a similar statute was recently declared void, although it had stood for a long time. Sadler v. Langham, 34 Ala. 311. In Tennessee a very early case had held that a grist-mill was a public use, but that a saw-mill or a paper-mill was not. Harding v. Goodlett, 3 Yerg. 41. And even the former part of this decision was recently overruled in Memphis Freight Co. v. Memphis, 4 Cold. 419. Finally this New England doctrine has been expressly repudiated in New York. Hay v. Cohoes Co., 3 Barb. 42. The object, to be a public use, must either be, first, something which *ipso facto*, by its mere existence and of necessity, produces some great common good to all the inhabitants of a particular district, such as sanitary measures for draining, water supply and the like; or, second, it must be something in which the public at large — that is, every individual, if he please — has a legal interest or right such as a highway, railroad, and the like; or, third, it must be something directly governmental, such as a fort, state-house and the like.

[1] Great Falls Man. Co. v. Fernald, 47 N. H. 444; French v. Braintree Man. Co., 23 Pick. 220.

weaker, with the introduction of steam power and the progress of improvement, but their validity has repeatedly been recognized in some of the states, and probably the same courts would continue still to recognize it, notwithstanding the public necessity may no longer appear to demand such laws.[1]

[1] Angell on Water-Courses, chap. 12; Wolcott Woolen Man. Co. v. Upham, 5 Pick. 294; Shaw, J., in French v. Braintree Man. Co., 23 id. 220.

In Hay v. Cohoes Co., 3 Barb. 47, Hand, J., observed: "The legislature of New York, it is believed, has never exercised the right of eminent domain in favor of mills of any kind; sites for steam engines, hotels, churches, and other public conveniences, might as well be taken by the exercise of this extraordinary power."

But in the case of Hazen v. Essex Company, 12 Cush. 477, which was an action to recover damages sustained by the raising of a dam across the Merrimac river, whereby a stream emptying into that river above said dam was set back and land overflowed, and a mill on said latter stream was damaged and destroyed, and in which the defendants claimed that they were justified in so doing by virtue of an act of the legislature of Massachusetts authorizing such appropriation and use of the rights and privileges of the plaintiff, and that the remedy of the plaintiff was a claim of damages, under said act, and not by action at common law, for the wrongful encroachment upon and injury to the plaintiff's rights in the premises. Chief Justice Shaw observed as follows: "It is contended that if this act was intended to authorize the defendant's company to take the mill-power of the plaintiff it was void because it was not taken for public use, and is not within the power of the government in the exercise of the right of eminent domain. This is the main question. In determining it, we must look to the declared purpose of the act; and, if a public use is declared, it will be so held, unless it manifestly appears by the provisions of the act that they can have no tendency to advance and promote such public use. The declared purposes are to improve the navigation of the Merrimac river, and to create a large mill-power for mechanical and manufacturing purposes.

"In general, whether a particular structure, as a bridge, or a lock, or a canal, or road is for the public use, is for the legislature, and which may be presumed to have been correctly decided by them. Commonwealth v. Breed, 4 Pick. 463. That the improvement of the navigation of a river is done for public use has been too frequently decided and acted upon to require authorities. And so to create a wholly artificial navigation by canals. The establishment of a great mill-power for manufacturing purposes, as an object of great public interest, especially as manufacturing has come to be one of the great industrial pursuits of the commonwealth, and, in our judgement, rightly so, in determining what is a public use, justifying the exercise of the right of eminent domain." See Stat. Mass., 1825, chap. 148; Boston and Roxbury Mill-Dam. Co. v. Newman, 12 Pick. 467; Hazen v. Essex Co., 12 Cush. 477; Harding v. Goodlett, 3 Yerg. 41; Newcomb v. Smith, 1 Chand. (Wis.) 71. See, also, Olmstead v. Camp, 33 Conn. 532; Jordan v. Woodward, 40 Me. 317; Miller v. Frost, 14 Minn. 365; Burgess v. Clark, 13 Ired. L. 109; McAfee's Heirs v. Kennedy, 1 Litt. 92; Smith v. Connelly, 1 T. B. Monr. 58; Shackleford v. Coffey, 4 J. J. Marsh. 40; Crenshaw v. State Riv. Co., 6 Rand. 245; Great Falls Man. Co. v. Fernald, 47 N. H. 444; Ash v. Cummings, 50 id. 591. But see contrary doctrine in Loughbridge v. Harris, 42 Ga. 500; Newell v. Smith, 15 Wis. 101; Fisher v. Horicon Co., 10 id. 351.

Under the constitution of California, and under the constitutions of other states, substantially the same, railroads, though operated by private companies, are by mere legal conclusion for public use. The power of eminent domain may therefore be exerted in

It is quite possible that in any state, in which this question would be entirely a new one, and where it would not be embarrassed by long acquiescence, or by either judicial or legislative

behalf of railroads under legislative permission; and, as fostering the public use, aid may be extended to the construction of such roads by means of the power of eminent domain, or of subscription to capital stock, and by donations made by cities and other political subdivisions of the state, under the authority of the legislature first given, or subsequently obtained. Such is the purport of the judicial decisions of the highest courts of Virginia, Connecticut, Pennsylvania, Ohio, Indiana, Tennessee, Illinois, Kentucky, New York, Georgia, Florida, Texas, Mississippi, Missouri, South Carolina, and other states. Stockton, etc., R. R. Co. v. Stockton, 41 Cal. 147. And see Secombe v. Railroad Co., 23 Wall. 108.

A company formed for the purpose of constructing and maintaining a line or lines of tubing, for the purpose of transporting petroleum or other oils, through pipes of iron or other materials, to any railroad, navigable stream, etc.; and to transport from the termini of such pipes, petroleum, etc., in tank cars, boats, or other receptacles belonging to such company, is formed for purposes of "internal improvements," and may, therefore, under the constitution of West Virginia, be authorized to appropriate lands necessary for the corporate use, in virtue of the right of eminent domain. West Virginia Transp. Co. v. Volcanic Oil, etc., Co., 5 W. Va. 382. As the right of eminent domain is established in New Hampshire, the legislature have power to authorize a corporation established for manufacturing purposes to flow back water on land in order to improve their water-power, on making compensation. This is a public use. Great Falls Manuf. Co. v. Fernald, 47 N. H. 444.

A statute authorizing a corporation to acquire the fee of private property for the purpose of constructing a boom upon the Mississippi river, is within the constitutional powers of the legislature of Minnesota. So held, in view of the large logging and lumber interests of that state upon the Mississippi river, and of special provisions of the charter of the boom company reserving legislative control over the company and its tolls and charges. Patterson v. Mississippi, etc., Boom Co., 3 Dill. 465. Some appropriation of the bed of the stream being essential to the reasonable operation of booming companies, if the legislature authorizes, by a general law, the organization of such companies, and regulates their operation, it must be deemed to have waived the right of the public to complain of any such appropriation which is not unreasonable. Attorney-General v. Evart Booming Co., 34 Mich. 462.

Land taken, in a city, for public parks and squares, by authority of law, whether advantageous to the public for recreation, health or business, is taken for a public use. N. Y. Supreme Ct., 1872, Matter of Commissioners of Central Park, 63 Barb. 282.

The provisions of the Ohio law, authorizing the construction of drains in townships, come within the principle allowing private property to be taken for public use, when the public health, convenience, or welfare demand it. Sessions v. Crunkilton, 20 Ohio St. 349. So, under the provisions of the Code in Iowa, authorizing the construction of ditches in counties, the work is not to be undertaken for the private advantage of land-holders or residents of the neighborhood, but only for the public good. The supervisors can order the work only after a petition is presented, signed by a majority of persons residing in the county and owning land adjacent to the proposed improvements. Paterson v. Baumer, 43 Iowa, 477.

The power delegated, being in derogation of common right, must be strictly pursued. State v. Jersey City, 25 N. J. L. 309; Doughty v. Hope, 3 Den. 249; Van Wickle v. Camden & Amboy R. R. Co., 14 N. J. L. 162. The rule may be said to be that persons or corporations obtaining from the legislature power to interfere with the rights of property are bound strictly

precedents, it might be held that these laws are not sound in principle, and that there is no such necessity, and, consequently, no such imperative reasons of public policy, as would be essential to support an exercise of the right of eminent domain.[1] But the question, whether the objects and purposes of a private corporation are of sufficient public use to warrant the exercise of the right of eminent domain, is frequently a difficult one to determine. It is generally held, that it may be granted to private corporations for the manufacture of illuminating gas for cities, or those organized for the supply of such cities with water, on the ground of the general public benefit and the sanitary advantages thereby afforded. So, also, there seems to be no controversy as to the exercise of this right, by railroad corporations, under authority conferred by the legislature in order to enable them to accomplish the objects of their institution, on the ground that they are of public use. But, where is the distinction to be drawn between such corporations and those organized for manufacturing purposes? Take, for instance, those created to manufacture flour, or lumber. They are usually of public benefit like gas and water-works companies, to the inhabitants of the locality where the business is carried on. Where shall the line be drawn, and who shall draw it? What is the distinction, resting upon principle, between the public use and utility of corporations for the manufacture of gas in our cities, and corporations, in the city or country, organized for the grinding of the produce of the country for the general benefit in various ways of the people, at least, in the vicinity where such business is carried on? If, in the former case, the use of land may be required for the erection of the necessary buildings and machinery and for the laying of pipes, so in the latter case, the same necessity may exist for the use of lands to carry on the business. If there is any difference, it would seem to be one of degree and not in principle. And under all the perplexing difficulties which surround the exercise of this right in the various cases where it

to adhere to the powers so conceded to them, to do no more than the legislature has sanctioned, and to proceed only in the mode which the legislature has pointed out; but (except in a proceeding at the instance of the attorney-general), any one seeking the assistance of a court of equity, to restrain the violation of such a contract with the legislature, is bound to show that he has a private interest in the matter. Mayor of Liverpool v. Chorley Water-Works, 2 De G., M. & G. 852.

may be claimed or conferred, it would appear the most judicious and practicable to allow the legislature to determine in its discretion those cases where it is proper to confer the power to exercise it, and unless there is a manifest abuse of the discretion, to allow no interference on the part of the courts with such discretion. That grist-mills are of public use and interest, and, therefore, subject to legislative control in relation to the tolls which may be taken by the proprietors of the same, is perhaps a generally recognized doctrine of the courts. And statutory provisions, relating to tolls, are quite common in the various states.[1] And in Alabama it has been held, that lands might under proper legislative regulations be taken for grist-mills, which grind for tolls, under the right of eminent domain.[2]

SEC. 402. **Who to determine the question of public use.** — Chancellor WALWORTH, on this subject, makes the following observations: "If the public interest can be in any way promoted by the taking of private property, it must rest in the wisdom of the legislature to determine whether the benefit to the public will be of sufficient importance to render it expedient for them to exercise the right of eminent domain and to authorize an interference with the private rights of individuals for that purpose."[3] And Mr. Dillon, on this subject, observes: "As the legislature is the sole judge of the necessity which requires or renders expedient the exercise of the power of eminent domain, without the owner's consent, so it is the exclusive judge of the amount of land or the estate in land which the public end to be subserved requires shall be taken. But as the right originates in necessity, so it is limited by it."[4]

[1] For a discussion of the subject in relation to the right to regulate the charges of even a private business, which is of general public interest, see *ante*, chap. 3, § 39, and notes. As to the right of parties in Iowa, desiring to utilize water power, for the purpose of propelling any mill or machinery, and of proceeding to exercise the right of eminent domain, and to determine the amount of damages in such cases, see Code of Iowa (1873), chap. 10.

[2] Sadler v. Langham, 34 Ala. 311. But see a contrary doctrine in Loughbridge v. Harris, 42 Ga. 500; Tyler v. Beacher, 44 Vt. 648.

[3] Beekman v. Saratoga and Sch. R. Co., 3 Paige, 73. See, also, Wilson v. Blackbird Creek Marsh Co., 2 Pet. 251; Cooley on Const. Lim. 532; 2 Kent's Com. 340.

[4] Dill on Corp., § 456.

From the foregoing it would appear the appropriate if not exclusive function of the legislature to determine the question of the necessity or expediency of exercising the right in favor of any enterprise, or of conferring, in a general way, authority upon corporations, to exercise the right, and that its determination is conclusive upon the question, as it is one of a political, and not judicial character.[1]

But whether the appropriation sought by the person or corporation in a particular case, under the statutes providing for the exercise of the right, and whether the use in such a case is one of sufficient public interest, and required for corporate purposes, is ordinarily a question to be determined by the courts.[2]

[1] People v. Smith, 21 N. Y. 597; Giesy v. Railroad Co., 4 Ohio St. 308; Varick v. Smith, 5 Paige, 137.

[2] The legislature must determine in the first instance whether the general objects and purposes of a corporation warrant the grant of the power to exercise the right of eminent domain on the part of the corporation. But, in relation to the particular circumstances under which the exercise of the general power is claimed, the courts may properly determine the justice and sufficiency of the claim. 2 Kent's Com. 340. But if the legislature determine in a particular case that property may be taken, this is, at least, ordinarily, final. Varick v. Smith, 5 Paige, 137; Armington v. Barnet, 15 Vt. 745.

"But the question whether the specified use is a public use or purpose, or such use or purpose as will justify or sustain the compulsory taking of private property, is perhaps ultimately a judicial one, and if so the courts cannot be absolutely concluded by the action or opinion of the legislative department. But if the legislature has declared the use or purpose to be a public one, its judgment will be respected by the courts, unless the use be palpably private, or the necessity for the taking is plainly without reasonable foundation. But if the use is public, or if it be so doubtful that the courts cannot pronounce it not to be such as to justify the compulsory taking of private property the decision of the legislature embodied in the enactment giving the power that a necessity exists to take the property, is final and conclusive." Rensselaer, etc., R. Co. v. Davis, 43 N. Y. 137; Commonwealth v. Breed, 4 Pick. 463; Bankhead v. Brown, 25 Iowa, 540; Hanson v. Vernon, 27 id. 28; Concord Railroad v. Greely, 17 N. H. 47; 2 Kent's Com. 340; Memphis Freight Co. v. Memphis, 4 Cold. (Tenn.) 419; Taylor v. Porter, 4 Hill, 142; Hazen v. Essex Co., 12 Cush. 477, where Shaw, J., said: "It is contended that if this act was intended to authorize the defendant company to take the mill-power and mill of the plaintiff it was void because it was not taken for public use, and it was not within the power of the government in the exercise of the right of eminent domain. This is the main question. In determining it we must look to the declared purpose of the act, and if a public use is declared it will be so held, unless it manifestly appears by the provisions of the act that they can have no tendency to advance and promote the public use." See, also, Talbot v. Hudson, 16 Gray, 417.

SEC. 403. **Limit of the right.** — That the sovereign power to exercise the right of eminent domain is universally recognized, we have already noticed. But this right is limited to the actual necessities of the case, and no more property or rights can be thereby acquired than is essential to accomplish the purposes intended.[1] And where the circumstances only require the partial use of land, as a limited quantity of soil, or stone, or other materials, such quantity may be taken. But a railroad or other corporation cannot acquire, by virtue of statutes conferring this right, an interest in lands, soil, stone or other material, for the purpose of speculation, or any other object than that of the execution of the enterprise or business for which it was erected.[2] Nor can the right, as a general rule, be exercised, except to promote objects that are useful, as contra-distinguished from such as are merely ornamental.[3] The line, however, between such cases may be indefinite and difficult to determine, for it is sometimes the case that those objects which are really ornamental may also include those which are useful. And so, *vice versa*, those which are strictly useful may also include those which are ornamental. It has been said, since public necessity is the basis of the right of eminent domain, that the right cannot be exercised except where the purpose is useful, and, therefore, that property cannot be compulsorily acquired against the owner's consent when wanted merely for ornamental purposes.[4]

[1] Stacey v. Vermont Cent. R. Co., 27 Vt. 39; Hill v. Western Vermont R. Co., 32 id. 68; Rensselaer & Saratoga R. Co. v. Davis, 43 N. Y. 137; Lance's Appeal, 55 Penn. St. 16; Oregon Cascade Co. v. Bailey, 3 Or. 164; Giesy v. Cincinnati, etc., R. Co., 4 Ohio St. 308; Miami Coal Co. v. Wigton, 19 id. 560; Union Bridge Co. v. Troy, etc., R. Co., 7 Lans. 240.

[2] Aldrich v. Drury, 8 R. I. 554; Blake v. Rich, 34 N. H. 282; Chapin v. Sullivan R. Co., 39 id. 564; Henry v. Dubuque & Pac. R. Co., 2 Iowa, 288.

[3] Woodstock v. Gallup, 28 Vt. 587; S. C., 29 id. 347; West River Bridge Co. v. Dix, 6 How. 545. In the case last cited, WOODBURY, J., after a learned consideration of the subject, says: "When we go to other public uses, not so urgent, not connected with precise localities, not difficult to be provided for without the power of eminent domain, and in places where it would only be convenient but not necessary, I entertain strong doubts of its applicability." See, also, Boston Mill Co. v. Newman, 12 Pick. 476; Bankhead v. Brown, 25 Iowa, 540; Eldridge v. Smith, 34 Vt. 484.

[4] Angell on Highways, § 85; Smith's Com. on Stat. and Const. Law, § 335. See, also, Memphis Freight Co. v. Memphis, 4 Coldw. (Tenn.) 419.

But the whole fee may be taken.

In New York, under the general railroad act, the corporation has a large discretion in reference to the measure of its wants. *In re* N. Y. Central, etc., v. Metropolitan Gas-light Co., 63 N. Y. 826.

If only a portion of another's premises are required for public use, this will not justify taking the whole; but if, under the claim of eminent domain, premises are taken and compensation provided for the taking, and the owner accepts the compensation without objection, he will not be permitted to say afterward that more was taken than was required for the public's use. And he would be estopped from reclaiming the premises thus taken, as his assent thereto would be presumed.[1] Although sufficient land may be taken, by virtue of this right, that is not only absolutely necessary for the accomplishment of the object, and also such as will be incidentally convenient, but, if only part of a lot is required for the purpose, a whole lot cannot be appropriated, even though compensation be made therefor. Thus, in New York, where a statute provided that, whenever a part of a lot was required for a street in a city, the whole lot might be valued, and that after its valuation and compensation made as provided by law, the title should vest in the city, which might appropriate the same to a public use, or sell the same, it was held by the supreme court of that state that such appropriation was not justified by any principles which relate to the right of eminent domain.[2]

[1] Embury v. Conner, 3 N. Y. 511.

[2] Matter of Albany Street, 11 Wend. 151. In this case Savage, C. J., refers to the provision of the statute under which the claim to take the property was based, and observes: "If this provision was intended merely to give the corporation capacity to take property under such circumstances with the consent of the owner, and then to dispose of the same, there can be no objection to it; but if it is to be taken literally, that the commissioners may, against the consent of the owner, take the whole lot when only a part is required for public use, and the residue to be applied to private use, it assumes a power which with all respect the legislature did not possess. The constitution, by authorizing the appropriation of property to public use, impliedly declares that for any other use private property shall not be taken from one and applied to the private use of another. It is in violation of natural right; and if it is not in violation of the letter of the constitution, it is of its spirit and cannot be supported. This power has been supposed to be convenient when the greater part of a lot is taken, and only a small part left, not required for public use, and that small part of little value in the hands of the owner. In such case the corporation has been supposed best qualified to take and dispose of such parcels, or gores, as they have sometimes been called; and probably this assumption of power has been acquiesced in by the proprietors. I know of no case where the power has been questioned, and where it has received a deliberate sanction of this court. Suppose a case where only a few feet, or even inches, are wanted from one end of a lot to widen a street, and a valuable building stands upon the other end of such lot, would the power be conceded to exist to take the whole lot, whether the owner consented or not? The quantity of the residue of any lot cannot

SEC. 404. **Who is to determine, as to the extent, amount or quantity of land or other property that may be taken.** — It has already been said that the legislature may, by general laws, provide that corporations or other persons may take lands or other private property, for the execution of their private purposes, provided they are of public interest and benefit; and that it is the appropriate function of the legislature, as the representative in this respect of the state and of the public interests, to determine, generally, the question as to the public use of any private enterprise; and that unless there is a manifest and flagrant abuse of the discretion of the legislature in this respect, the courts will not interfere with it. But the question may arise, as we have seen, as to the right as well as the extent of the right of condemnation, in particular cases.

The legislature may provide by general statutes for the condemnation, and allow private corporations to take such property, to carry out the purposes for which they were organized, provided they are also of public use, of which it is the principal if not the sole judge, provided they render compensation therefor. But who shall determine what quantity or amount of property or interests may be taken under such general laws, for the purpose of carrying out corporate objects?

Under the general laws referred to, corporations may proceed to take private property by having the same appraised as provided by the statute and on the payment of the value thereof. But where is the limit to the property which may be taken? And who shall determine the amount or extent of the same? And what is the nature and extent of the interest acquired by such corporations?[1]

vary the principle. The owner may be very unwilling to part with only a few feet; and I hold it equally incompetent for the legislature to dispose of private property, whether feet or acres are the subject of this assumed power."

[1] In Beekman v. Saratoga, etc., R. Co., 3 Paige's Ch. (N. Y.) 45, it was held that it rested in the sound discretion of the legislature to determine whether the benefit to the public would be of sufficient public importance to render it expedient for them to exercise the right of eminent domain. In this case, Chancellor WALWORTH observed: "There is no doubt that it was competent for the legislature to authorize the company to agree with the owners of land through which the road was to run for a conveyance or donation of the lands necessary for that purpose; and it would be both inequitable and unjust for an individual who had consented to give the site of the road, provided it should run through his land, to retract that

Sec. 405. **Same continued.** — Under these general statutes, the title in fee-simple is not, perhaps, generally transferred to, or vested in, the corporation, by its express provisions; but the general principles applicable to the measure of damages for the

consent after the company had, in reference to such agreement, contracted with the owners of other lands on that particular route. And if such consent was not in fact retracted before the directors of the company had made their certificate of location, so as to preclude themselves from laying out the road elsewhere, it would be the duty of this court to compel a specific performance of the verbal agreement made with them before that time. I infer, however, from the affidavits in this case, that the complainant altered his mind, and retracted his consent to the location of the road on his premises at any place west of the barn, before the second of September, when the certificate of location was signed by the directors.

"The constitution of the United States does not come in question in this cause. It is admitted that the complainant held the land in fee; and probably under a title derived from the crown, to the rights of which the people have now succeeded. A law declaring the grant from the crown void, and divesting his title on that ground, would impair the obligation of the contract. But it was no part of the contract between the crown and its grantees or their assigns, that the property should not be taken for public use, upon paying a fair compensation therefor, whenever the public interest or necessities required that it should be so taken. All separate interests of individuals in property are held of the government under this tacit agreement or implied reservation. Notwithstanding the grant to individuals, the *eminent domain*, the highest and most exact idea of property, remains in the government, or in the aggregate body of the people in their sovereign capacity; and they have a right to resume the possession of the property, in the manner directed by the constitution and laws of the state, whenever the public interest requires it. This right of resumption may be exercised not only where the safety, but also where the interest or even the expediency, of the state is concerned; as where the land of the individual is wanted for a road, canal, or other public improvement. The only restriction upon this power, in cases where the public or the inhabitants of any particular section of the state have an interest in the contemplated improvement as citizens merely, is that the property shall not be taken for the public use without just compensation to the owner, and in the mode prescribed by law. The right of *eminent domain* does not, however, imply a right in the sovereign power to take the property of one citizen and transfer it to another, even for a full compensation, where the public interest will be in no way promoted by such transfer. And if the legislature should attempt thus to transfer the property of one individual to another, where there could be no pretense of benefit to the public by such exchange, it would probably be a violation of the contract by which the land was granted by the government to the individual, or to those under whom he claimed title, and repugnant to the constitution of the United States. But if the public interest can be in any way promoted by the taking of private property, it must rest in the wisdom of the legislature to determine whether the benefit to the public will be of sufficient importance to render it expedient for them to exercise the right of *eminent domain*, and to authorize an interference with the private rights of individuals for that purpose. 2 Kent's Com. 340. It is upon this principle that the legislatures of several of the states have authorized the condemnation of the lands of individuals for mill-sites, where from the nature of the country such mill-sites could not be obtained for the accommodation of the inhabitants without overflowing the lands thus condemned. Upon the same principle of public benefit, not only the agents of the government, but also individuals and corporate bodies, have been authorized to take private

taking contemplate a valuation of the entire interest. And it is probable, at least, that the interest or estate vested in the corporation, by virtue of the statutes, is the whole estate for any purpose required by the corporation in carrying out the objects of its creation, subject, however, in most cases, to a reversion to the original owner, or his heirs or assigns, in case such corporation shall cease to use or occupy such property for corporate purposes.[1]

property for the purpose of making public highways, turnpike roads, and canals; of erecting and constructing wharves and basins; of establishing ferries; of draining swamps and marshes; and of bringing water to cities and villages. In all such cases the object of the legislative grant of power is the public benefit derived from the contemplated improvement, whether such improvement is to be effected directly by the agents of the government, or through the medium of corporate bodies, or of individual enterprise. And according to the opinion of Chief Justice MARSHALL, in the case of Willson v. The Black Bird Creek Marsh Company, 2 Pet. 251, measures calculated to produce such benefits to the public, though effected through the medium of a private incorporation, are undoubtedly within the powers reserved to the states, provided they do not come in collision with those of the general government. It is objected, however, that a railroad differs from other public improvements, and particularly from turnpikes and canals, because travelers cannot use it with their own carriages, and farmers cannot transport their produce in their own vehicles; that the company in this case are under no obligation to accommodate the public with transportation; and that they are unlimited in the amount of tolls which they are authorized to take. If the making of a railroad will enable the traveler to go from one place to another without the expense of a carriage and horses, he derives a greater benefit from the improvement than if he was compelled to travel with his own conveyance over a turnpike road at the same expense. And if a mode of conveyance has been discovered by which the farmer can procure his produce to be transported to market at half the expense which it would cost him to carry it there with his own wagon and horses, there is no reason why the public should not enjoy the benefit of the discovery. And if any individual is so unreasonable as to refuse to have the railroad made through his lands for a fair compensation, the legislature may lawfully appropriate a portion of his property for this public benefit, or may authorize an individual or corporation thus to appropriate it, upon paying a just compensation to the owner of the land for the damage sustained. The objection that the corporation is under no legal obligation to transport produce or passengers upon this road, and at a reasonable expense, is unfounded in fact. The privilege of making a road and taking tolls thereon is a franchise, as much as the establishment of a ferry or a public wharf, and taking tolls for the use of the same. The public have an interest in the use of the railroad, and the owners may be prosecuted for the damages sustained, if they should refuse to transport an individual, or his property, without any reasonable excuse, upon being paid the usual rate of fare. The legislature may also from time to time regulate the use of the franchise and limit the amount of toll which it shall be lawful to take, in the same manner as they may regulate the amount of tolls to be taken at a ferry, or for grinding at a mill, unless they have deprived themselves of that power by a legislative contract with the owners of the road."

[1] See 1 Redf. on Rail., § 69; Connecticut, etc., R. Co. v. Holton, 32 Vt. 43. The provisions of the general statutes of the various states, giving the power to exercise the right of eminent domain, are perhaps quite similar; and the

In Massachusetts the supreme court of that state in one case say: "The right acquired by the corporation, although technically an easement, yet requires for its enjoyment a use of the land per-

rights acquired thereby, as well as the extent of the same, would be similar under the various statutes.

The Code of Iowa on this subject provides:

"§ 1241. Any railroad corporation organized in this state may take and hold, under the provisions of this chapter, so much real estate as may be necessary for the location, construction, and convenient use of its railway, and may also take, remove and use for the construction and repair of said railway and its appurtenances any earth, gravel, stone, timber or other materials, on or from the land so taken; and the land so taken otherwise than by the consent of the owners, shall not exceed one hundred feet in width, except for wood and water stations, unless where greater width is necessary for excavation, embankment, or depositing waste earth.

"§ 1242. It may also take and hold additional real estate at its water stations, for the purpose of constructing dams and forming reservoirs of water to supply its engines. Such real estate shall, if the owner requests it, be set apart in a square or rectangular shape, including all the overflowed land, by the commissioners, as hereinafter provided; but the owner of the land shall not be deprived of access to the water or the use thereof in common with the company on his own land. And the dwelling-house, outhouse, orchards and gardens of any persons shall not be overflowed or otherwise injuriously affected by any proceeding under this section.

"§ 1243. Any such railway corporation may lay down pipes through any land adjoining the track of the railway, not a greater distance than three-fourths of a mile therefrom, unless by consent of the owners of the land through which the pipes may pass beyond that distance, and maintain and repair such pipes, and thereby conduct water for the supply of its engines from any running stream, and shall, without unnecessary delay, after laying down or repairing such pipes, cover the same so as to restore the surface of the land through which the same may pass to its natural grade, and shall, as soon as practicable, replace any fence that it may be necessary to open in laying down or repairing such pipes, and the owner of the land, through which the same may be laid, shall have a right to use the land through which such pipes pass in any manner so as not to interfere therewith; said pipes shall not be laid to any spring, nor be used so as injuriously to withdraw the water from any farm; provided, that such corporation shall be liable to the owner of any such lands for any damages occasioned by laying down, regulating, keeping open, or repairing such pipes, such damages to be recoverable from time to time as they may accrue in any ordinary action in any court of competent jurisdiction. Other provisions of the statute point out the mode in which the compensation to the owner must be ascertained, and for an appeal from the determination of the commissioners, selected by the sheriff for that purpose. The report of the commissioners, where not appealed from, and the amount of damages assessed is deposited with the sheriff, may be filed with and recorded in the office of the recorder of deeds in the county where the lands are situate, and such record is presumptive evidence of title in the corporation to the property so taken, and is constructive notice of the rights of the corporation therein." Iowa Code (1873), § 1253.

Mr. Redfield thinks it very questionable, whether a railroad company in such cases is entitled to the herbage growing upon the land, or to cultivate the same, or dig for stone or minerals in the land beyond what is necessary for their purposes in construction. Redf. on Rail., § 69. And the express provision of the English statute on this subject is to the same effect. 8 and 9 Vict., chap. 20, § 17. See, also, Baker v. Johnson, 2 Hill, 342; Preston v. Dubuque, etc., R. Co., 11 Iowa, 15. But see Chicago, etc., R. Co. v. Patchin, 16 Ill. 198.

In Evans v. Haefner, 29 Mo. 141, it was held that earth and minerals above grade might be used by the company,

manent in its nature and practically exclusive." [1] And in another case, in reference to the rights of railroad corporations, SHAW, C. J., observes: "The railroad company are authorized to do all acts

but that those below belonged to the owner.

In Hill v. Western Vermont Railway Company, 32 Vt. 68, the facts were as follows: The Western Vermont Railway Company, before their road was laid out or surveyed, procured a bond from B. to sell them such lands owned by him as should be required for their road. Their charter provided that the directors might cause such surveys of the road to be made as they deemed necessary and fix the line of the same, and that the company might enter upon and take possession of such lands as were necessary for the construction of their road and requisite accommodations. The survey of the road, made by order of the directors, designated certain land belonging to B. as depot grounds, and the company paid him for and took the same, but never received any conveyance thereof from him. The plaintiff, having recovered a judgment against the company, levied his execution upon a portion of this land and brought ejectment against the company to recover possession thereof. The referee, to whom the case was referred, found that a part of the land embraced in the levy was never necessary to the company for railroad purposes and would not become so prospectively. It was held that by B.'s contract with the company he was not bound to convey to them any greater quantity of, or estate in, his land than they required for depot accommodations; that under their charter the company could not compulsorily acquire any more land, or any greater estate therein, for the purposes of a road-bed or stations than was really requisite for such uses; that the estate so requisite was not one in fee-simple, but merely an easement, and was, therefore, not subject to be levied upon by the creditors of the company; that when taken for such purposes the rule was the same, whether the land was taken compulsorily by condemnation and the award of commissioners, as to its extent and price, or under the agreement of the parties as to one or both of these particulars; that under their charter the directors had power to lay out their road and stations as they saw fit, and that so long as they acted in good faith, and not recklessly, their decision as to the quantity of land required for depot accommodations would be regarded as conclusive.

REDFIELD, C. J., said: "This is an action of ejectment to recover possession of certain lands which the defendants purchased of one Burton for depot purposes about one of their stations and which the referee, in this case, has found were not necessary for the present or prospective use of the company for that purpose; the excess, according to the opinion of the referee, being some acres. The plaintiff, being a creditor of the company, levied upon this excess together with a considerable number of acres more which the referee finds are necessary for the use of the company for the purposes for which they were procured. The appraisal and levy was upon the entire portion of land, both that which was and that which was not necessary for the uses of the company.

"The company, before they surveyed their road, contracted with Burton for the conveyance of 'such lands' owned by him 'as shall be required' for the company's road 'on reasonable request.' The land was subsequently designated by metes and bounds, and the money paid for the piece, but the land has never been conveyed to the company.

"The first question arising in the case is as to the extent of estate which Burton is bound to convey to the company. The plaintiff claims that this is an estate in fee-simple as the contract binds him to convey such lands 'owned by him' as shall be required by the company. This is no doubt the fair and natural construction of such a contract between ordinary parties. If the land is to be conveyed

[1] Hazen v. Boston, etc., R. Co., 2 Gray, 574.

within five rods, which by law constitute their limits in taking away or leaving gravel, trees, stones or other objects, which in their judgment may be necessary and proper to the grading and level-

and is defined as land 'owned' by the obligor nothing less could be fairly intended, in ordinary cases, than an estate in fee-simple. But here the land is purchased and to be conveyed to the company for their use 'such as shall be required by them.' We do not understand by this all the lands they might ask for but such as their powers and functions and business required. We do not think the scope of the bond could fairly be made to extend beyond this. It would be very unreasonable, as it seems to us, to construe this bond as extending beyond this, and including at the election of the defendants, all the land owned by Burton and lying near the line of the railway.

"So, too, it seems to us, that as Burton, by the fair construction of the bond, was only bound to convey such lands as were reasonably required for the legitimate uses of the company so he was only bound to convey such estate therein as they required for those uses. If the extent of territory could fairly be defined and limited by the general objects and purposes of the contract, which is a general rule of construing all contracts, and as applied to a case of this character, a most significant and unquestionable one, we think the same rule also applies with equal force to the estate to be conveyed. A contract to convey land for a particular use or to a party having capacity to acquire a certain estate in land for a particular use, must, of necessity, carry the implication of such limitation upon the estate to be conveyed.

"We think, therefore, that the bond, as orignally given, would not have bound the party to convey more land than the company fairly required for their legitimate uses under their charter or any greater estate in the land than such uses justly required. That is just what the company were empowered to take compulsorily. And their charter, as we think, was not intended to give them power to acquire any more land or any greater estate in such land, for the purpose of a road-bed or stations, than was really requisite for such uses under their charter. We do not intend to say that if they purchased and took the conveyance of the fee of land for these purposes, they could not hold it or convey it, although some courts have so held. Nor do we intend to intimate any decided opinion that they may do this. The general provisions of the charter of this company are much like other charters in this and the other states, and similar to the general railway act, and seem to have reference to acquiring the right to such an estate in the necessary lands as is requisite for the road-bed and other incidental use and accommodation of the company in their prescribed and necessary business.

"The company may purchase lands for wood and timber for their ordinary uses and may, no doubt, purchase, take and hold and also convey the fee-simple of such lands. We are not inclined here to question the right of this company to take the fee of lands by way of gift or in payment of debts due them, either by voluntary conveyance or by levy, *in invitum*. It is not important to discuss these propositions here. They may all be conceded.

"But they do not affect the question what extent of land and what estate the company were expected to take, by purchase or gift or by condemnation, for their road-bed and depots. We think it very obvious, from this charter and many others we have examined where the quantity of estate is not defined, that it should be construed as we have already intimated in regard to the bond of Burton, according to the object and purport of the grant, and the necessities or wants of the corporation thereby created. It seems to us to be leaving all just limits of construction to go beyond this. It is certain, as already intimated, that this is the ordinary rule of construing contracts. And statutes are generally construed much after the same rules as contracts and especially statutes of this character which are much in the nature of contracts between the sovereignty

ing of the road, in adjusting and adapting it to other roads, bridges, buildings, and the like, so as to render it most conducive to the public uses which the railway is intended to accomplish.

and the shareholders, or, strictly speaking, between the sovereignty and the corporation. In other words, the charter is a grant of certain franchises and immunities, upon certain terms and conditions, and with certain specified or implied limitations. These conditions and limitations are the consideration and the counterpart, so to speak, of the grant. By accepting the grant the corporation bind themselves to perform the obligations and duties reasonably and fairly implied by the conditions of the grant, so that the charter should receive the same construction as any other contract of a similar character.

"One of the important franchises of railway corporations, and the one which distinguishes corporations of this public character from ordinary business corporations, on account of its sovereign or prerogative character, is that right which in the sovereign is called eminent domain, which is the power to invade private property and appropriate it to its own purposes. The right to exercise this function is made dependent upon rendering an equivalent in money, and the implied compact not to acquire more land than they need. And the charters or general laws, in most of the American states, allow the details of the appropriation of lands to the use of railways to be arranged either by the judgment of certain public functionaries designated for that purpose, or by the consent of the land-owner. But in the latter mode even the proceeding is, in some sense, compulsory. The land-owner does not stand precisely in the position of an ordinary proprietor in the market. He has no election whether he will part with his land or not, but only whether he will fix the terms by negotiation or by the appraisal of the commissioners or the court. In either mode of appropriating land for the purposes of the company, where they have by their charter the power to take it compulsorily, there is this implied limitation upon the power that the company will take only so much land or estate therein as is necessary for their public purposes. It does not seem to us to make much difference in regard to either the quantity or the estate, whether the price is fixed by the commissioners or by the parties. For under this charter it is the act of the directors which designates the extent of land to be taken, and thus far the taking is compulsory and strictly under the powers granted by the charter.

"In regard to the mode of appropriating land to the purposes of the road-bed and depots of a railway company, it is obvious that it should be done in some way which shall be judicial and final, for the time at least. This is necessary both for the company and the land-owner, and when done in the mode pointed out in the charter, it must be final, or should be so, unless some power is reserved, either expressly or impliedly, to change the location of the road, as in the defendants' charter seems to be given, or to enlarge its facilities with the advancement of business, which this charter does not give in terms. This is not ordinarily reserved to railways. When once located, the location is commonly regarded as final. They must take such lands as will be likely to accommodate their business, both present and prospective. In doing this it would not be wonderful if they should take more, sometimes, than every one regarded as necessary. The same may be true of their road-bed. A jury or referee might well consider, in many cases, no doubt, that at many points four or five rods, or even three rods in width, was just as beneficial for all the purposes of the road as six rods, which some of the early chartered roads in this state are allowed to take and do take. The same may be often true of the land taken for depot accommodations.

"But if the road-bed or land for stations is taken in the mode prescribed in the charter and general law of the state, whether by the judgment of the commissioners, as to its extent as well as the land damages, or by the act of the directors through their surveyors

Whatever acts, therefore, are requisite to the safety of passengers on the railway, to the agents, servants, and persons employed by the company, and to the safe passage of travelers on and across highways and roads connected with it, and which can be done within the five rods, the company have a right, under their act of incorporation, to do. This is embraced in the idea of taking land for public use." [1]

But it may be affirmed that the current of decisions in this

and engineers, as to its extent, and the appraisal of the commissioners as to its value, or by the directors as to its extent, or the agreement of parties as to the price, as in this case, when once taken in the mode prescribed in the charter, as this land was taken, it is regarded as well settled that the land so taken is not subject to the levy of an execution. This is put upon the ground, and justly, we think, that the estate, being a mere easement for a particular use, is not of the quality and character which by the statute is made subject to a levy. This is not an estate in fee, or for life, or years, or indefinitely, or an equity of redemption, which are the estates defined in the statute. But it is an easement, a right to use the land in a particular mode for a particular purpose, and which cannot be transferred to an ordinary person having no right to use it in that mode or for that purpose, since the estate would cease and the land revert the moment it was put to any other use than the one designated in the charter or statute by or under which the appropriation was made.

"So that whether the company take more or less, if taken for these purposes and no other, and only an easement is acquired by the company, it is not an estate which can be transferred by a levy to the creditors of the company, or by any conveyance, in parcels, probably. But of this we need not speak. It is certain the statute has not provided for levying upon any such estate. And this, we think, is the only estate for which the company contracted with Burton, or which he is bound to convey to them.

"And as to the quantity of land taken, if the directors of the company have power to lay out their own road in any place they choose, and to the extent of five rods in width, and to take such lands for depot purposes as they deem expedient, and they have acted in good faith, we do not see very well how their proceedings can be brought in question by any one. It may have been the folly of the legislature to grant any such power to the directors of the company, but if they have done so, and this power is altogether unlimited, unless they act rashly or in bad faith, it is not very obvious how they are to be controlled in the matter. No doubt if they act recklessly or extravagantly, so as to indicate either utter incompetence, or corruption, or undue influence, or bad faith, a court of equity, at the suit of the land-owner or the stockholders, would set the matter right. But this would thus be done in such a mode as to settle it definitely and not to leave it subject to the confusion consequent upon subjecting it to the action of independent tribunals, in regard to portions of the land taken for the same purpose, whose decisions would almost inevitably produce more or less confusion and uncertainty. But so long as the land is appropriated to the road-bed and depot purposes in the very mode prescribed in the statute, we do not very well comprehend how it can be appropriated in parcels to the payment of the debts of the company, by means of levies, even if the fee had been conveyed to the company."

[1] Brainard v. Clapp, 10 Cush. 6. See, also, Chicago, etc., R. Co. v. Patchin, 16 Ill. 198.

country as well as in England, in regard to the title acquired by the exercise of the right of eminent domain, is that the former owner retains the title, subject to the proper use of the corporation for the purposes for which it was authorized to be taken, and that the owner may still maintain an action of trespass for any use or injury of the freehold, not authorized by the proper use or exercise of corporate powers or any injury to the freehold by a stranger.[1]

It is a matter which is usually the subject of statutory regulation, and the question depends largely upon the construction put by the courts upon such local statutes. The rights acquired by corporations under such statutes must depend upon such local construction. But it would appear reasonable that, where under such provisions the corporations are required to pay the full value of the property taken for corporate purposes, they should be vested with the whole interest subject to reversion in case of abandonment as before stated.[2]

[1] Dovaston v. Payne, 2 H. Bl. 527; 2 Roll. Abr. 566, p. 1; Rust v. Low, 6 Mass. 90; Jackson v. Rutland, etc., R. Co., 25 Vt. 151; Redf. on Rail., § 69, and notes. But see Nicoll v. New York & Erie R. Co., 12 Barb. 460, where a more extended doctrine of the rights of railroad corporations on this question is held, viz.: "Corporations have a fee-simple for purposes of alienation, but they have only a determinable fee for purposes of enjoyment."

[2] In Blake v. Rich, 34 N. H. 285, it is held that a railway takes but a mere easement in lands. FOWLER, J., says: "Does the railroad corporation acquire any such higher, more extensive and more exclusive right?" (than the public and the public authorities gain by the laying out of such lands as a public highway.) "A careful examination of the various statutes authorizing the taking of lands for railroads, and a comparison of the language with that of those statutes providing for the taking of land for highways, satisfies us it does not, and we see nothing in the use to which the land is appropriated in the one case, and the other requiring the same phraseology to be differently construed in the two cases. By the theory as well as the letter of the law the taking in both cases is for the public use, and that use is no more inconsistent with the continuance of the fee in the original owner in the case of a railroad than in that of a highway." But in Railroad Company v. Davis, 2 Dev. & Bat. 467, RUFFIN, C. J., says: "The doctrine of the common law is, that the public has only an easement in the land over which a road passes, and that the right of soil is undisturbed thereby. The reason is, that ordinarily the interest of the public requires no more. Every beneficial use is included in the easement, in respect at least to such highways as exist at the time the principle was adopted, and to which it had reference. But if the use requisite to the public be such a one as requires the whole thing, the same principle which gives to the public the right to any use gives the right to the entire use, upon paying adequate compensation for the whole. It is for the legislature to judge in cases in which it *may* be for the public interest to have the use of private property, whether in fact the public good requires the property, and to what extent. From the great cost of this road (a railway), from its nature and supposed utility, it seems to be contemplated to preserve it perpetually, or for a great and indefinite period. All persons are excluded from going on it, unless in the vehicles provided by the public or its agents; and

SEC. 406. **Where the corporation takes more land than is required.** — Under various statutes provided for the mode of proceeding to secure the lands of others for corporate purposes, under the right of eminent domain, it is evident that the corporation may claim the condemnation of more land than is required for the corporate purpose, and if allowed to proceed unrestrained and an appraisement is made, the value paid and the proper papers in the case recorded as provided by the statutes,[1] the corporation would thereby secure a *prima facie* right to all the lands thus appraised. What then would be the remedy where the claim was for more land than

to enforce that provision and adequately protect the erections from injuries, it may be requisite to divest the property out of individuals." See, also, Giesey v. Cincinnati, Wilm. & Z. Railway, 4 Ohio (N. S.), 308.

In Nicoll v. The New York & Erie Railway, 12 N. Y. 128, it was objected that because by the act of incorporation there was given to the defendant only a term of existence of fifty years, therefore the grant of land in question, which was a piece six rods in width across the grantor's farm for the site of the defendants' railway, should be deemed to have conveyed an estate for years, not in fee. But the court said that the unsoundness of that position was easily shown; that it was never yet held that a grant in fee in express terms could be restricted by the fact that the grantee had but a limited term of existence. And "it is erroneous to say that an estate in fee cannot be fully enjoyed by a natural person, or by a corporation of limited duration. It is an enjoyment of the fee to possess it, and to have the full control of it, including the power of alienation, by which its full value may at once be realized."

It is well settled that corporations, though limited in their duration, may purchase and hold a fee, and they may sell such real estate whenever they shall find it no longer necessary or convenient. 2 Preston on Estates, 50. KENT says: "Corporations have a fee-simple for the purpose of alienation, but they have only a determinable fee, for the purpose of enjoyment. On the dissolution of the corporation, the reverter is to the original grantor or his heirs, but the grantor will be excluded by the alienation in fee, and in that way the corporation may defeat the possibility of a reverter. 2 Kent, 282; 5 Denio, 389; 1 Comst. 509. Large sums of money are accordingly expended by railroad companies in erecting extensive station-houses and depots and by banking corporations in erecting banking-houses, because, holding the land in fee, they may be able to reimburse themselves for the outlay by selling the fee before the termination of their corporate existence."

But the right of a railway company to the exclusive possession of the land, taken for the purposes of their road, differs very essentially from that of the public in the land taken for a common highway. The railway company must, from the very nature of their operations, for the security of their passengers, workmen, and the enjoyment of the road, have the right at all times to the exclusive occupancy of the land taken, and to exclude all concurrent occupancy, by the former owners in any mode and for any purpose. Jackson v. R. & B. R. R., 25 Vt. 150; Conn. & Pass. Rivers R. R. v. Holton, 32 Vt. 47.

THOMAS, J., says, in Hazen v. Boston & M. R. R., 2 Gray, 580: "The right acquired by the corporation" (a railway company) "though technically an easement, yet requires for its enjoyment a use of the land, permanent in its nature, and practically exclusive."

[1] See Code of Iowa, *supra*.

is required? The corporation, as we have seen, would only be entitled to take so much as is necessary to accomplish the contemplated purpose.[1] And if, under color of the powers conferred upon them for this purpose, a corporation attempts to take more than is required, it could undoubtedly be restrained by injunction, and the question as to the proper extent or amount be determined in court.[2]

The remedy by injunction in such a case would be the most effectual of any, and the modern practice would enable the complainant to have the extent of the rights of the corporation in the land claimed, determined in the same proceedings. "It has become a well-settled head of equity, that any company authorized by the legislature to take compulsorily the land of another for a definite purpose, will, if attempting to take it for any other object, be restrained by the injunction of a court of chancery from so doing."[3]

[1] Stacey v. Vermont Cent. R. Co., 27 Vt. 39; Hill v. Western Vt. R. Co., 32 id. 68; Rensselaer, etc., R. Co. v. Davis, 43 N. Y. 137; Lance's Appeal, 55 Penn. St. 16.

[2] See *ante*, § 444, note 3.

[3] Green's Brice's Ultra Vires, 285; citing L. R., 1 H. L. 43; Crossman v. Bristol, etc., R. Co., 1 H. & M. 531. This principle is, with the qualification mentioned below, strictly enforced. Whatever be the purposes for which special powers and authorities are given to the attainment of these purposes alone can they be devoted, no deviation therefrom being permitted, however slight and however much the corporation would thereby be benefited. Brice's Ultra Vires, 286. He further says: In Bentinck v. Norfolk Estuary Company, 8 De G., M. & G. 714; 26 L. J. Ch. 404; Webb v. Manchester, etc., R. Co., 4 N. Y. Sup. Ct. 116; Cothier v. Midland R. Co., 17 L. J. Ch. 235; Flower v. London, etc., R. Co., 34 id. 450; Edinburgh, etc., R. Co. v. Campbell, 9 L. T. (N. S.) H. L. 157. See Eversfield v. Mid-Sussex, etc., R. Co., 3 D. G. & J. 286; 28 L. J. Ch. 107, the defendants had power to make and maintain certain cuts and works with authority to take and use such of certain lands "as might be necessary or proper for them to enter for the purpose of executing these works." Within the limits of their line of deviation they proceeded to take lands for the purpose not of forming works, but of digging materials for the same. It was held by PAGE-WOOD, V. C., that they had no authority to do so; and this judgment, on appeal, was affirmed, and, therefore, an injunction granted by the vice-chancellor against them was made perpetual. * * * There have been many subsequent decisions on this subject. The latest is that of Lord Carrington v. Wycombe Railway Company, L. R., 2 Eq. 825; L. R., 3 Ch. 277; Beauchamp v. Great Western Railway Company, id. 745. The defendant's company gave to landowners notice to treat in respect to a close of land containing one acre, twenty-seven perches, part of the C. estate. The price was settled between the parties, and the land conveyed to the company by a deed not in the statutory form, including the mines and all the estate of the vendors. The company used about three perches of the land for their railway; and about two years after their purchase they, in pursuance of a contract which, before the notice to treat, they had made with Mr. Terry to convey to him all such part of the C. estate as lay between his land and the railway, conveyed the remaining one acre, twenty-

Other modes may be adopted to secure parties from the wrong referred to. But it is not properly within the scope of this treatise to consider very fully the subject of remedies by or against corporations.

Sec. 407. **Compensation.** — The authority to take land for public purposes under the right of eminent domain can only be conferred by the legislature in this country, or by parliament in Great Britain, and this right can only be exercised on making full compensation for the land or other property taken. The constitution of the United States inhibits the taking of private property for public use without just compensation,[1] which would render any authority the states might attempt to confer, for the taking of private property under the right of eminent domain without just compensation, null and void. And the powers of parliament in this respect are equally limited.[2]

four perches to him by a deed, which recited that it was superfluous land. The land was situate within the limits of a borough, but was at some distance from the mass of houses forming the town. There were two cottages upon it. The lords justices held, that apart from other considerations, the vendors would have been entitled to relief on the ground that the company had taken the land, not for the purposes of their act, but in order to enable them to fulfill their contract with Terry. Lord Justice Cairns, in his judgment, said: "There is no controversy as to the facts; and it appears to me that a more distinct and more openly avowed case of the use of parliamentary powers for purposes not intended by parliament never has been presented to the court; and this is exactly one of those cases which were described by Lord Cranworth in Galloway v. Mayor and Commonalty of London, L. R., 1 H. L. 34, 42, where his lordship said: 'The principle is this, that when persons embarking in great undertakings for the accomplishment of which those engaged in them have received authority from the legislature to take compulsorily the lands of others, making to the latter proper compensation, the persons so authorized cannot be allowed to exercise the powers conferred on them for any collateral object.' The land here, in my opinion, was taken, and is avowed to have been taken for that which was an object entirely collateral, namely, to give to Mr. Terry that which he had bargained for as part of the consideration for the sale of the £20,000 stock."

[1] Amendment to Const. U. S., art. 5.

[2] The Queen v. The Eastern Counties Railway, 2 Q. B. 347; 2 Rail. C. 736. On this subject of the power in the sovereignty to exercise the right of eminent domain and the necessity of compensation in such cases, to the parties whose property is taken, Redfield, J., observes: "It seems to have been accurately defined, and distinctly recognized, in the Roman Empire, in the days of Augustus, and his immediate successors, although from considerations of policy and personal influence and esteem, they did not always choose to exercise the right to demolish the dwellings of the inhabitants, either in the construction of public roads or aqueducts or ornamental columns, but to purchase the right of way."

"But in the states of Europe and in the written constitution of the United

The constitutions of most, if not all, of the various states contain similar provisions. The duty of making compensation in such cases seems to be in accordance with reason and principles of natural justice; and is recognized in the jurisprudence of all civilized people. On this subject Mr. Redfield observes:

"The duty to make compensation for property, taken for public use, is regarded by the most enlightened jurists as founded in the fundamental principles of natural right and justice, and as lying at the basis of all wise and just government. independent of all written constitutions or positive law." [1]

SEC. 408. **Same continued.** — The mode of proceeding to determine the amount of compensation is also usually, if not universally, provided for by statute; and where it is thus provided for it is treated as not only directory but exclusive of any other mode; and no rights can be obtained by the proceedings to condemn property for the public use, unless the provisions of the statute are complied with in this and all other respects.[2]

States, and in those of most of the American states an express limitation of the exercise of the right makes it depend upon compensation to the owner. But this provision in the United States constitution is intended only as a limitation upon the exercise of that power by the government of the United States." 1 Redf. on Rail., § 63.

[1] 1 Redf. on Rail., § 65; Gillinwater v. The Miss. & A. R. Co., 13 Ill. 1; Reitenbaugh v. Chester Valley R. Co., 21 Penn. St. 100; Atlantic, etc., R. Co. v. Sullivant, 5 Ohio (N. S.), 276.

[2] As to the compensation for lands taken, and the right to enter, for the purposes of a survey, see Bloodgood v. Mohawk, etc., R. Co., 18 Wend. 9; Cushman v. Smith, 34 Me. 247.

In the former case Chancellor WALWORTH says: 'Another very important question which arises in this case is, whether the legislature in fact authorized the defendants to enter upon the private property of the plaintiff and to construct their railroad thereon before his damages were actually assessed and paid or offered to be paid to him; and if such is the construction of the law, whether such a power is authorized by the constitution. In the case of Rogers v. Bradshaw, 20 Johns. 735, this court decided that where private property was taken for public use it was not necessary that the amount of the compensation should be actually ascertained and paid before such property was appropriated to the public use; that it was sufficient if a certain and adequate remedy was provided by which the individual could obtain such compensation without any unreasonable delay. This decision has been followed by the courts of several of our sister states. To this extent the opinion of Chancellor KENT, in the case of Rogers v. Bradshaw, must be considered as the settled construction of the constitutional provision on this subject, at least in this state. I cannot, however, agree with my learned predecessor in his subsequent reasoning in that case, upon which he afterward acted in the case of Jerome v. Ross, 7 Johns. Ch. 344, 'that it is not necessary to the validity of a statute authorizing private property to be taken for the public use that a remedy for obtaining compensation by the owner should be

No title can vest under the provisions of statutes authorizing the condemnation of property under the right of eminent domain,

provided. On the contrary, I hold that before the legislature can authorize the agents of the state and others to enter upon and occupy, or destroy or materially injure the private property of an individual, except in cases of actual necessity which will not admit of any delay, an adequate and certain remedy must be provided whereby the owner of such property may compel the payment of his damages, or compensation; and that he is not bound to trust to the justice of the government to make provision for such compensation by future legislation. I do not mean to be understood that the legislature may not authorize a mere entry upon the land of another for the purpose of examination, or of making preliminary surveys, etc., which would otherwise be a technical trespass, but no real injury to the owner of the land, although no previous provision was made by law to compensate the individual for his property if it should afterward be taken for the public use. But it certainly was not the intention of the framers of the constitution to authorize the property of a citizen to be taken and actually appropriated to the use of the public, and thus to compel him to trust to the future justice of the legislature to provide him a compensation therefor. The compensation must be either ascertained and paid to him before his property is thus appropriated, or an appropriate remedy must be provided and upon an adequate fund, whereby he may obtain such compensation through the medium of the courts of justice if those whose duty it is to make such compensation refuse to do so. In the ordinary case of lands taken for the making of public highways, or for the use of the state canal, such a remedy is provided, and if the town, county, or state officers refuse to do their duty in ascertaining, raising, or paying such compensation in the mode prescribed by law, the owner of the property has a remedy by *mandamus* to compel them to perform their duty. The public purse, or the property of the town or county upon which the assessment is to be made, may justly be considered an adequate fund. He has no such remedy, however, against the legislature to compel the passage of the necessary laws to ascertain the amount of compensation he is to receive, or the fund out of which he is to be paid. In the case under consideration, if this company were authorized to take possession of the plaintiff's property and complete the construction of their road before his damages were assessed and paid, or offered to be paid to him, he might have been wholly without redress, as he has no power to compel the assessment of damages, and no adequate fund was provided for the payment of the damages when ascertained. The citizen whose property is thus taken from him without his consent is not bound to trust to the solvency of an individual, or even of an incorporated company, for corporations as well as individuals are sometimes unable to pay all their just debts; especially those corporations which are authorized to incur heavy responsibilities in anticipation of the payment of their capital by the subscribers for the stock; and if the true construction of this charter was such as is contended for by the defendants' counsel, I should hold that the provision, which authorized the appropriation of the plaintiff's property to the use of the corporation before the damages had been ascertained and paid, was unconstitutional and void.

"I cannot, however, agree with the learned judge who delivered the opinion of the supreme court in this case, that such is the fair and legitimate construction and meaning of the defendants' charter. It is a primary rule in the construction of statutes in those countries where the limits of the legislative power are restricted by the provisions of a written constitution, to endeavor, if possible, to interpret the language of the legislature in such a manner as to make it consistent with the constitution or fundamental law. Applying that principle to the statute under consideration, and having ascertained that it would be inconsistent with the fundamental law of the state to authorize the defendants to take possession of the lands of an individual without having made an adequare and certain provision for the recovery

and providing for compensation, until the provisions of the statute in reference to compensation are complied with.[1] And it may

of the damages which he would necessarily sustain by such permanent occupation of his property for the purposes of the road, there appears to be no difficulty in giving such a construction to this statute as will be consistent with the constitution and also with the probable intention of the legislature. This may be done effectually by considering what is very inartificially appended as a proviso to the seventh section, as in the nature of a *condition precedent*, not only to the acquisition of the legal title to the land, but also to the right to enter and take the permanent possession of the land for the use of the corporation. Indeed, such appears to me to be the more reasonable and fair construction of this section, independent of any constitutional difficulty in the way of a different construction. For, upon the supposition that no injustice was intended by the legislature, it can hardly be presumed they meant to authorize the company to enter upon the lands of individuals, pull down their buildings, etc., and then take their own time to get the damages appraised and to pay the same, leaving the individuals injured thereby to seek for some uncertain remedy by action, if the company neglected to get the damages assessed within a reasonable time.

"The conclusion at which I have arrived, therefore, in that the defendants' plea is imperfect in not averring that the damages had been regularly assessed and paid before the defendants entered upon the plaintiff's land and appropriated it to the use of the road; and that if they in fact entered and commenced the construction of the road before the damages were actually assessed and paid, the plaintiff has a technical right to recover in this action for all damages which he really sustained by such unauthorized entry, although these requisites of the statute were afterward complied with. In that case the defense arising from the subsequent assessment and payment of the damages can only be pleaded to that part of the declaration which charges a continuance of the trespass after the damages were assessed and paid as required by the statute."

In Cushman v. Smith, *supra*, SHEPLEY, C. J., says: "The exclusive occupation of that estate temporarily,

[1] Baltimore & Susquehanna R. Co. v. Nesbit, 10 How. 395; Compton v. Susquehanna R. Co., 3 Bland, 386; Van Wickle v. Railway Co., 14 N. J. L. 162; Stacey v. Vermont C. R. Co., 27 Vt. 39; Levering v. Railway Co., 8 W. & S. 459; 1 Redf. on Rail., § 65.

In Cushman v. Smith, 34 Me. 247, Chief Justice SHAPLEY says: "There has been a serious difference of opinion respecting the requirements and construction of those constitutional provisions, which declare in the same or similar terms that 'private property shall not be taken for public uses without just compensation.' How far legislation may proceed to authorize acts to be done without first making or tendering compensation, and where it becomes arrested by the provision, has been considered by many of the ablest men and most distinguished jurists of the country. And yet there is an indication arising out of the conflict of opinion, and the difficulty of reconciling the positions attempted to be established with each other, and with any sound and pervading principle, that the whole truth has not been reached. The most thoroughly it has been examined in connection with legislative enactments, the more clearly has it been perceived that serious difficulties or inconveniences or losses may arise in the rigid and uniform application of any suggested construction to the proceedings required in all classes of public improvements. How can a construction be correct which will allow acts to be done for the purpose of making one kind of public improvement, and prohibit the like acts to be done under like circumstances for the purpose of making another kind of public improvement; which will authorize acts for the purpose of making a public highway, and prohibit

be affirmed, as a general principle, that no right or title to property can be acquired under this right, until compensation for the

as an initiatory proceeding to an acquisition of a title to it, or to an easement in it, cannot amount to a taking of it in that sense. The title of the owner is thereby in no degree extinguished. He can convey that title while thus exclusively occupied as he could have done before. Should he do so by a conveyance containing a covenant that it was free of all incumbrances, that covenant would not make him liable for such an exclusive occupation unless it be admitted that a title to the land or to an easement in it can be acquired without making compensation, and this is denied.

"A construction of the provision which would permit legislation authorizing private property to be exclusively occupied without first making compensation as an incipient proceeding to the acquisition of a title to it, or to an easement in it, and which would not authorize the title of the owner to be established or impaired without compensation, may be somewhat novel, but it will not be found to be unsupported by positions asserted and maintained in judicial opinions. It is generally admitted in them, that examinations and surveys may be authorized by legislative enactments without a violation of the constitutional provision, and without provision for previous compensation. passes is to be found the limit of the legislative power to authorize tres- Where of a more extensive and injurious character, which do not extinguish or intrench upon the title of the owner? Does that provision of the constitution permit the legislative power to authorize trespasses not very injurious to private property without providing for previous compensation, and prohibit it from authorizing those of a little more or much more injurious character, which do not in any degree impair or affect the title of the owner? It was not the intention to make the exercise of the legislative power depend upon the extent of the injury, which the authorized acts might occasion, if the title was not invaded.

"There are cases in which an opin-

them for the purpose of making a railway; which will authorize them for the purpose of making a canal or railway, when made by a state, county, city, or town, and prohibit them when the same public improvement is made by a private corporation? And yet such may be the effect of many, if not of most, of the constructions suggested or insisted upon. If, upon principle and sound reasoning, the provision must operate alike upon the construction of all classes of public improvements made by the appropriation of private property to public use, the effect of any proposed construction of the clause may be examined in its practical operation, to ascertain if such could have been the intention of the framers of the constitution.

"If the construction be such as to require payment in all cases for private property so taken before it can be exclusively *occupied* for public use, the result must be that no such improvement can be effectually or beneficially commenced even by a state, county, city, or town, without waiting to have an assessment of damages first made for each person, whose estate is in some degree to be occupied upon the whole line of the contemplated improvement.

"Such a construction would prevent the laying out and making of highways and streets over private estates believed to be benefited and not injured thereby, before there had been an adjudication obtained, that no damages were occasioned; and it would deprive persons thinking themselves aggrieved by such an adjudication or by one estimating the damages to be too little in their judgment, from having such adjudications revised and finally determined by some other tribunal without delaying the progress of the public improvement.

"It is believed to have been the long established course of proceeding, in this part of the country at least, to authorize the exclusive *occupation* of land required for such public uses as the laying out of highways and streets, by making provision by law for compensation to the owner, to be subse-

property taken is made. If proceedings under the statute have been had, and the value of the land assessed, the amount must

ion is expressed that all injuries to private property authorized by the legislative power can only be authorized by the exercise of the right of eminent domain; and that a temporary injury or occupation amounts to a taking of the property.

"If it be admitted that such an injury or occupation of the property amounts to a taking of it, in the sense in which the word taken is used in the constitution, it will follow that measures must be taken to ascertain the damages occasioned thereby, and that compensation must be actually made before it can be so injured or occupied, or that the right to do it without compensation first made must be admitted, leaving the party injured to the chance of obtaining compensation as he may best be able. If the former alternative be adopted, private property cannot be injured or temporarily occupied, however urgent and immediate may be the public necessity, without waiting for the final completion of all proceedings to ascertain the compensation. And how the amount of compensation can be satisfactorily ascertained before the acts occasioning damages have been performed, it is not easy to perceive.

"If the latter alternative be adopted and the right to cause a temporary occupation or injury be admitted before compensation is made, the party injured must depend upon a legislative provision for his compensation, and the prohibitory clause of the constitution will fail to secure to him, with entire certainty, a compensation. In other words, it will of itself afford him no protection against such temporary injury or occupation, and would leave him in the position in which he would be by a construction of that clause, which would only protect him against a permanent appropriation of his property, or an extinguishment or diminution of his title to it.

"Many of the judicial opinions urgently restrictive of the legislative power assert that the title to land taken or to an easement in it cannot be transferred from the owner to oth-

quently paid, and in many cases authorizing the damages to be finally ascertained as well as paid subsequently. This course of proceeding existed, so far as is known, without complaint, long before the Revolution, which cast off the British dominion; and of course was well known to the framers of the constitution which first contained this prohibitory clause for the protection of private property. Was it the intention to interrupt such course of proceeding and to provide a remedy for a grievance already experienced, or only to prevent private property from being taken from the owner and permanently appropriated to public use without compensation? Constitutional provisions are often and legitimately explained by considering the actual state of facts at the time of their adoption. Thus the provision in the constitution of the United States for the regulation of commerce is explained to include navigation, by reference to the state of facts existing at the time. By these, or other considerations, many minds appear to have been led to the conclusion that private property might be absolutely taken and permanently appropriated to public use without compensation being first made, when provision was made by law for compensation to be subsequently made from the treasury of the state, or of a county, city, or town.

"Does experience teach that the owner in such cases will always be certain to obtain compensation? History informs us that kingdoms and states have not always paid their just debts in full, that they have often paid them only in promises which would not command gold or silver without a large discount.

"When the private property of citizens residing in a county, city or town, may be taken to pay the debts of the corporation, there may be reason to expect that its debts will be certainly paid. But the law making private property liable to be taken for payment of the debts of such corporations may at any time be repealed or altered; and the corporation in its cor-

be paid, or deposited for the use of the owner as provided by law. "The payment or deposit of the money awarded is a condition

ers for public use without compensation actually made, that the acts of payment and of transfer are simultaneous. If this be true, it is immaterial, so far as it respects the acquisition of a title to land, or to an easement in it for public use, when compensation is made. It can only be material to insist that compensation shall be made before an exclusive occupation is permitted, to prevent a temporary inconvenience and loss. An attempt has already been made to show that such was not the design of the prohibitory clause.

"In the case of Callender v. Marsh, 1 Pick. 430, the opinion states that the clause 'has ever been confined in judicial application to the case of property actually taken and appropriated by the government.'

"In the case of Hooker v. The New Haven and Northampton Co., 14 Conn. 146, WILLIAMS, C. J., says, that the canal being made in the place designated 'and the damages assessed and paid, it became a canal legally authorized, and the company became vested with the legal rights to the enjoyment of their property.' And SHERMAN, J., says, 'that the only limitation at common law or by any constitution to the legislative power over individual property is that what is taken must be paid for.'

"In the case of Bradshaw v. Rogers, 20 Johns. 103, SPENCER, C. J., says, 'It is true that the fee-simple of the land is not vested in the people of the state until the damages are appraised and paid, but the authority to enter is absolute, and does not depend on the appraisal and payment.'

"In the case of Bloodgood v. The Mohawk and Hudson Railroad Co., 18 Wend. 9, MAISON, Sen., insists that an entry and possession of the land taken in defiance of the rights of the owner, is a taking of it in the legal sense, and yet he admits that the 'legal fee may not be in them.'

"In the case of Baker v. Johnson, 2 Hill, 342, the opinion states, 'Although the absolute fee did not pass to the state until the appraisement of damages, yet the right to enter and use the

porate capacity may not have property from which payment can be obtained.

"Is the distinction attempted to be made between taking private property without first making compensation, when provision is made for payment by a state, county, city or town, and when it is made for payment by a private corporation, a sound one? Can that be a correct construction of the provision which would authorize legislation by which the owner of an estate might be deprived of it without being first paid, whenever in the judgment of some court or tribunal it might be morally certain that he could afterward obtain compensation, and which would not authorize it whenever in the judgment of such court or tribunal it was not so certain that he could obtain it? That would make the title pass from the owner to the public use, not upon payment of compensation, but upon the opinion of certain official persons that a fund or other means had been provided from which he might obtain payment. If such be a correct construction, it would follow that the title to private property may be made to pass from the owner to a private corporation for public use, when that corporation should be found to possess the means or to furnish security which would render it as certain that compensation could be subsequently obtained from it as from the treasury of a state, county, city or town.

"These and other considerations present themselves as serious objections to a construction which would permit an owner of property to be deprived of it without compensation actually paid or tendered to him, whether it be taken for public use by a state, county, city, town or private corporation.

"If such a construction be inadmissible, as well as one which would prevent an exclusive occupation of a temporary character, without payment of compensation, the inquiry is suggested, whether by a correct construction such results may not be avoided.

"This provision of the constitution was evidently not intended to prevent

precedent to the right of the company to enter upon the land for the purposes of construction, and without compliance with it they

property was perfect the moment the appropriation was made." It is submitted that a payment as well as an appraisement should have been required to pass the title.

"In the case of the People v. Hayden, 6 Hill, 359, the opinion states 'the statute places the right to have compensation made where the principle of the constitution places it, viz., upon the forcible divestment of the use and enjoyment of private property for the public benefit.' If the divestment intended was of a permanent character there would be no objection made to it.

"In the case of Smith v. Helmer, 7 Barb. 416, the opinion states, 'It is sufficient for this case that the settled construction of the constitution which prohibits private property to be taken for public use without just compensation, actual compensation need not precede the appropriation.'

"In the case of Rubottom v. McClure, 4 Black, 505, it was decided that private property might be taken for public use, upon provision being made for a subsequent compensation.

"In the case of Thompson v. Grand Gulf R. R. Co., 3 How. 240, it was decided that compensation must be first made, the constitution of that state requiring that it shall not be taken 'without a just compensation made therefor.'

"In the case of Pittsburgh v. Scott, 1 Penn. St. 309, it was decided that it was not necessary that compensation should be actually ascertained and paid before private property is appropriated to public use, that it was sufficient that an adequate remedy was provided by which compensation could be obtained without any unreasonable delay. To the construction of the prohibitory clause proposed it may be objected that it will not prevent the exercise of legislative power to authorize the commission of serious injuries upon private property without making provision for compensation.

"A construction so broad as to prevent this would greatly limit the legislative power, and bring it within a much narrower sphere of action than it was accustomed to claim and exercise without complaint before the con-

the exercise of legislative power to prescribe the course of proceeding to be pursued to take private property and appropriate it to public use; nor to prevent its exercise to determine the manner in which the value of such property should be ascertained and payment made or tendered. The legislative power is left entirely free from embarrassment in the selection and arrangement of the measures to be adopted to take private property and appropriate it to public use, and to cause a just compensation to be made therefor.

"The provision was not introduced or intended to prevent legislation authorizing acts to be done which might be more or less injurious to private property not taken for public use. It is not unusual to find that private property has been greatly injured by public improvements when there has been no attempt to take it for public use. The records of judicial proceedings show that private property in railroads, turnpike road, toll bridges and ferry ways has been often greatly injured, and sometimes quite destroyed, by acts authorized by legislation, which, according to judicial decisions, did not violate any provision of the constitution.

"Private property is often injured by the construction and grading of highways and railways when no attempt has been made to change its character from private to public property. The cases of Day v. Stetson, 8 Greenl. 365; Callender v. Marsh, 1 Pick. 418; Canal Appraisers v. The People, 17 Wend. 571; and Susquehanna Canal Co. v. Wright, 9 Watts & Serg. 9, present examples of it.

"The provision was not designed, and it cannot operate to prevent legislation which should authorize acts operating directly and injuriously, as well as indirectly, upon private property when no attempt is made to appropriate to public use. An instance of this kind of legislative action will be found in the case of the Commonwealth v. Tewksbury, 11 Metc. 55, where a person was held indictable for the removal of gravel from his own

may be enjoined by a court of equity, or prosecuted in trespass at law for so doing. The right of the land-owner to the damages

stitutions containing this clause were framed. Reliance must be placed upon the justice of legislation, and upon the administration of the laws for a recompense for such injuries, and not upon a provision of the constitution not designed for such a purpose.

"Another objection to this construction may be that the owner will not be able to recover compensation for the exclusive occupation of his land, and for the injuries thereby occasioned, when the proceedings are not so completed and compensation made as to transfer any title to land, or to an easement in it for public use.

"This objection is believed to be founded upon an incorrect position. If compensation be not made within a reasonable time after the land has been exclusively occupied, the right to continue that occupation will become extinct. It being authorized only as a part of the proceedings permitted for the acquisition of title, when it becomes manifest by an unreasonable delay that the avowed purpose is not the real one, or that, if real, it has been abandoned, the measures permitted for that purpose will no longer be authorized, and if the occupation be continued after that time the occupants will be trespassers, and liable to be prosecuted as such. The damages occasioned before the right of exclusive occupation became extinct may be recovered by an action of trespass, or by an action on the case, containing in the declaration averments that the exclusive occupation was authorized for the purpose of acquiring title for public use, and that no such proceedings have taken place as would transfer any title within a reasonable time, with other suitable averments. If the occupants should be regarded as trespassers *ab initio*, it would not be, as has been supposed, because they had omitted to make compensation, but because they had continued to occupy or commit trespasses after it had become manifest that their avowed was not their real

land contrary to a statute provision, which did not assume to appropriate to public use or to make compensation for it.

"The design appears to have been simply to declare that private property shall not be changed to public property, or transferred from the owner to others for public use without compensation; to prevent the personal property of individuals from being consumed or destroyed for public use without compensation, not to protect such property from all injury by the construction of public improvements; not to prevent its temporary possession or use without a destruction of it or a change of its character. It was designed also to prevent the owner of real estate from being deprived of it, or of an easement in it, and to prevent any permanent change of its character and use without compensation. While it was not designed to prevent legislation which might authorize acts upon it which would by the common law be denominated trespasses, including an exclusive possession for a temporary purpose, where there was no attempt to appropriate it to public use. Such acts of legislation might be very unjust, and it may be presumed that no legislative body would make such enactments without making provision for the compensation of injuries to private property occasioned by acts designed to promote the public good.

* * * * * * *

"This leads to a further inquiry to ascertain the sense in which the word *taken* was used in the constitution.

"That word is used in a variety of senses, and to communicate ideas quite different. Its senses, as used in a particular case, is to be ascertained by the connection in which it is used, and from the context the whole being applied to the state of facts respecting which it was used.

"It cannot well be denied, and it is generally admitted to have been used in constitutions containing this clause to require compensation to be made for private property appropriated to public use, by the exercise on the part of the government of its superior

awarded is a correlative right to that of the company to the land. If the company has no vested right to the land, the land owner has none to the price of the land." [1]

purpose, or after their real purpose had been abandoned.

"It is not necessary to decide whether such an action could be maintained, for the distinction between the actions of trespass and case has been abolished in this state.

"After some difference of opinion, it may now be regarded as settled, that enactments which authorize private property to be taken for public use must provide the means or course to be pursued to have compensation made for it.

"The conclusions to which this discussion leads are:

"1. The clause in constitutions which prohibits the taking of private property for public use was not designed to operate, and it does not operate, to prohibit the legislative department from authorizing an exclusive occupation of private property temporarily, as an incipient proceeding to the acquisition of a title to it, or to an easement in it.

"2. It was designed to operate, and it does operate, to prevent the acquisition of any title to land, or to an easement in it, or to a permanent appropriation of it from an owner for public use, without the actual payment or tender of a just compensation for it.

"3. That the right to such temporary occupation as an incipient proceeding will become extinct by an unreasonable delay to perfect proceedings, including the actual payment or tender of compensation to acquire a title to the land, or of an easement in it.

"4. That an action of trespass *quare clausum* may be maintained to recover damages for the continuance of such occupation, unless compensation, or a tender of it, be made within a reasonable time after the commencement of such occupation.

"5. That under such circumstances an action of trespass, or an action on the case, may be maintained to recover damages for all the injuries occasioned by the prior occupation.

"In this case, as no compensation or tender of it was made to the plaintiff within a reasonable time after his estate was occupied by the corporations, no title to it, or to an easement in it, has been acquired, and the occupation, although legally commenced, has ceased to be legal.

"As the corporation acquired no title to the land, or to any easement in it, the defendant could acquire none by his conveyance from that corporation."

title to all property required by the necessities of the people to promote their common welfare.

"This appears to have been denominated the right of eminent domain, of supereminent domain, of transcendental propriety. These terms are of importance only to disclose the idea presented by them, that the right to appropriate private property to public use rests upon the position that the government or sovereignty claims it by virtue of a title superior to the title of the individual, and that by its exercise the individual and inferior title becomes wholly or in part extinguished — extinguished to the extent to which the superior title is exercised. To take the real estate of an individual for public use is to deprive him of his title to it, or of some part of his title, so that the entire domain over it no longer remains with him. He can no longer convey the entire title and dominion."

[1] Stacey v. Vermont Cent. R. Co., 27 Vt. 39. See, also, 1 Redf. on Rail., § 65.

In Stacey v. Vermont Cent. R. Co., 27 Vt. 39, it was held that the payment or deposit of the money awarded for damages was a condition precedent to the right to enter upon the land for the purpose of building the railroad and without which the company might be enjoined, or prosecuted for the trespass; and that, if the company

SEC. 409. **Damages — mode of estimating.** We have heretofore stated the rule of damages in such cases as follows: "The stat-

has no vested right to the land, the owner has none to the damages awarded him.

In this case ISHAM, J., says:

"This action is brought to recover damages which were appraised by commissioners for taking the plaintiff's land for the use and construction of the Vermont Central railroad. The survey of the road was made on the 4th of June, 1847, and was recorded in the town clerk's office, on the 5th of August in the same year.

"The appraisal of damages by the commissioners was made on the 5th of January, 1849, and was recorded on the 6th of February, afterward. No appeal having been taken within ninety days, as limited by the eighth section of the charter, that appraisal has become conclusive as to the amount of damages sustained, and, if the plaintiff is entitled to recover, will prevent any further litigation of that matter.

"It appears from the case also, that in February, 1850, the defendants changed their line of road by locating the same on other land than that of the plaintiff, and upon which their road has been constructed. That alteration of their line of the road has superseded the necessity of taking the plaintiff's land on which the road was first surveyed. The right of the corporation to change the line of their road is given them by the fifteenth section of their charter, which provides that if the directors of that company, for any cause, shall deem it expedient, they may change the location of such parts of their road as they shall deem proper. That change in the line of their road, however, will operate as an abandonment of their former survey on the plaintiff's land, so that the company can no longer claim any right or interest in the land itself, or to any easement growing out of it, in consequence of that survey having been made. That doctrine has been expressly held in Massachusetts, in relation to highways Commonwealth v. Westborough, 3 Mass. 406, and Same v. Cambridge, 7 id. 163, and the same effect, we think, will follow in cases of this character. The result is, that the plaintiff retains his land free from any incumbrance arising from that location or survey of the road. That abandonment of the line of the road over the plaintiff's land, however, does not necessarily supersede his claim for damages. The right to recover those damages, whether liquidated by the agreement of the parties or by commissioners, is not necessarily defeated by that act of the company. If the land has once been taken, if the company, for any period of time, have been seized and possessed of the land so appraised, or if the plaintiff has had, at any time, a perfected right to the damages awarded by the commissioners, a subsequent abandonment of that location, and the establishment of a new line for the road, will have no effect to defeat the plaintiff's claim for the damages which have been awarded to him. Westbrook v. North, 2 Greenl. 179; Hampton v. Coffin, 4 N. H. 517; Harrington v Comm'rs of Berkshire, 22 Pick. 267; Hawkins v. Rochester, 1 Wend. 53. Under such circumstances the plaintiff would be entitled, on the abandonment of that location, to the land free from any incumbrance of that character, and also to the damages which were allowed to him.

"The important question in the case therefore arises, whether the Vermont Central Railroad Company have ever been seized or possessed of this land of the plaintiff, and for which the award of the commissioners was made; or has the plaintiff ever had a vested right to the damages which were awarded on that survey of the road? The determination of these questions depends upon the construction which is to be given to the seventh section of the charter of this company. We obviously can derive but little aid on this subject from adjudged cases in other states, unless they have arisen upon some statutory provision, embracing substantially the specific provisions of that section of this charter. By that section it is provided, that when land or other real estate is taken by the corporation for the use of their road, and the parties are unable to agree upon the price of the land, the same shall be ascertained and determined by commissioners, together

utes of the states generally make some provision in reference to damages in such cases, such as that in estimating the same no

with the charges and costs accruing thereon, *and upon the payment of the same, or by depositing the amount in a bank as shall be ordered by the commissioners, the company shall be deemed to be seized and possessed of all such lands as shall have been appraised.* This provision is quite specific in stating what act on the part of the corporation vests in them a right to the land. They derive no title to the land or any easement growing out of it, from the fact of their having surveyed the road across the plaintiff's land, or having placed that survey on record, nor by having the damages appraised by commissioners, and causing their award to be recorded. The statute is express, that the payment or deposit of the money according to the award must be made before any such right accrues. Until that payment is made, the company have no right to enter upon the land to construct the road or exercise any act of ownership over the same. A court of equity would enjoin them from exercising any such right, or they might be prosecuted in trespass at law. The survey and appraisal of damages are merely preliminary steps to ascertain the terms upon which the land can be taken for such purposes, if the company shall see fit to use the same for the construction of their road. If it is accepted, and the company conclude to take the land, that acceptance and that taking is consummated only by a payment or deposit of the money, for the use of the owner of the land, as awarded and directed by the commissioners. The case of the Baltimore & Susquehanna R. Co. v. Nesbit et al., 10 Howard, 395, is very decisive on this question. In that case land was taken by the company under a charter granted by the state of Maryland Under a provision in their charter, the damages were assessed by a jury, and that assessment was confirmed by the court. In that case, as in this, the road was located, and the damages conclusively determined and settled, so that no further litigation could arise on that matter. In that case, as in this also, the charter provided, that the payment, or tender of payment of such valuation, should entitle the company to the estate or land as fully as if it had been conveyed. The charter of that company and of this, in all particulars important upon this question, are substantially similar. The court remarked, 'that it is the payment or tender of the value assessed by the inquisition which gives the title to the company, and, consequently, without such payment or tender no title could, by the very terms of the law, have passed to them.' They further observed: 'that it can hardly be questioned, that without acceptance *in the mode prescribed* the company were not bound; that if they had been dissatisfied with the estimate placed upon the land, or could have procured a more eligible site for the location of their road, they would have been at liberty, before such acceptance, wholly to renounce the inquisition. The proprietors of the land could have no authority to coerce the company into its adoption.' The same doctrine was sustained in the case of Bloodgood v. Mohawk & Hud. R. R. Co., 18 Wend. 10, 19. In that case the company were authorized to enter upon the land and make such examinations and surveys as were necessary to determine the most advantageous route for the road, and to take the same for that purpose; provided, that all land so taken shall be purchased by the company of the owner, and in case of a disagreement as to the price or value of the land, commissioners were to be appointed to determine the same, *and upon payment of such damages with the costs, or depositing the same in a bank in the city of Albany, then the corporation shall be deemed to be seized and possessed of the land so appraised.* It will at once be perceived, that the provisions of that charter are not only similar in this respect to that of the Vermont Central Railroad Company, but that they are expressed in very similar language. The chancellor remarked 'that this provision should be considered in the nature of a condition precedent, not only to the acquisition of the legal title to the land, but also to the right to enter and take the permanent possession of the land for the use of the corporation.' It is very

account shall be taken of the benefits conferred by the contemplated improvement for which the land is taken.[1] The gen-

clear, from these cases, that as the Vermont Central Railroad Company have never paid or deposited the amount of that award of the commissioners for the benefit of the plaintiff, as ordered by them, that the company have never acquired any right or title to the land appraised, or to any easement growing out of it; and that none can now be acquired under those proceedings. The abandonment of that location, and the adoption of a new route, and the construction of their road thereon, will prevent the acquisition of any such title or the perfection of any such right.

"It is insisted, however, that though the corporation have no right to the land, and have never been seized or possessed of the same, yet that the plaintiff, under the provisions of that act, has acquired a vested right to the damages awarded by the commissioners, and that that right became vested in him when the award was made and recorded. The statute requires 'that the commissioners shall determine the damages which the owner of the land may have sustained, or shall be likely to sustain, *by the occupation of the same for the purposes aforesaid.*' The actual taking and occupation of the same for such purposes is the foundation upon which the binding character of that award is made to rest. It is those circumstances which the commissioners are to take into consideration in ascertaining the amount of damages. If, therefore, the land has never been taken by the company in a manner in which they can legally occupy the same, no damages have arisen, or can arise, from that cause. When the corporation obtains a vested right to the land, or to the easement, the landholder has a vested right to the damages; that specific art, which vests the right in them, gives also a vested right to the owner of the land. These respective rights are correlative, and have a reciprocal relation; the existence of one depends upon the existence of the other. If the corporation have no vested right to the land, the owner of the land has no vested right to the price which was to be paid for it. This is the very ground upon which the cases were sustained to which we were referred in the 2 Me. 179; 4 N. H. 517; and 1 Wend. 53. Two of these cases were in *assumpsit*, and the other in debt for the recovery of a sum awarded for land taken for similar purposes. The land-owner was allowed to recover his damages, and was treated as having a vested right to them, as a vested right to the easement in the land had been acquired, for which those damages had been given as a compensation That is also the doctrine of the case in 10 How. 395, for on that ground alone was sustained the constitutionality of the act of Maryland, in causing to be vacated the *first appraised*, and ordering a new inquisition to be taken. As there had been no payment or tender of the damages assessed, there was no vested right to the land, and for that reason the act was held constitutional in vacating the first inquisition. On the same ground, and for that reason specifically assigned, the court, in the case of Harrington v. Berkshire, 22 Pick. 267, granted a *mandamus* to enforce the payment of damages awarded to the landholder. The road had been laid, the title to the easement *under their statute had vested, and, for that* reason, the party had a vested right to the damages awarded. We know of no case, neither have we been referred to any, in which such damages have been recovered, or in which the owner of the land has been considered as having a vested right to the same, when the corporation had acquired no right to the land, or to an easement growing out of it. There is no propriety or consistency in saying, that the plaintiff shall recover this compensation for land which has never been taken or purchased from him; that this company shall pay for a right or an easement, which they never had, and which they never could legally enjoy. If the line of this road had been so varied as to run over another portion of the plaintiff's land, it would

[1] Const. Iowa, art. 1, § 18.

eral rule is, that the party whose land is taken may recover the market value of the land thus taken, and, in the absence of statutory provisions, no allowance should be made on account of the general advantage which the owner enjoys in common with the

hardly be contended that he would be entitled to a double compensation; yet such would be the result if this action can be sustained.

"The cases in England have no definite bearing upon this subject, nor are they in conflict with the construction we have given to the provisions of this charter. In that country, generally, the railroad is located, and its courses definitely defined, when the application is made to parliament for a charter. When a charter is granted, it is based upon that location, and authority is granted to take that specific land for that purpose. The owner of the land is required to specify the sum he demands for it, and if not assented to, inquisition is to be made to determine the value of the land. Burkinshaw v. Birmingham & Oxford Railway Co., 4 Eng. Law & Eq. 492. Under those charters it has been held that, if no inquisition is made, the company are bound to pay the sum specified, and not only has payment been enforced by *mandamus*, but the company have, by the same process, been compelled to carry into effect all the powers delegated to them by their charter. Blakemore v. Glamorganshire Canal Navigation, 1 Mylne & Keene, 162, 163; Regina v. The Eastern Counties R. Co., 10 Ad. & Ell. 531; Regina v. The York North Midland R. Co., 16 Eng. Law & Eq. 299. That doctrine, however, has since been overruled in the exchequer chamber, to which the last cited case was carried on a writ of error. York & N. Midland Railway Co. v. Regina, 18 Eng. Law & Eq. 206,207,208. Those charters are now treated as conferring conditional powers to take the land on making compensation for it. The observations of JERVIS, C. J., in the last case, are very appropriate and applicable to the rights of the parties under this charter. 'The company may take land; if they do, they must make full compensation. The words of the statute are permissive, and only impose the duty of making full compensation to each land-holder, as the option of taking the land of each is exercised.' This case as well as the case of Burkinshaw v. The Birmingham & Oxford R. Co., 4 Eng. Law & Eq. 489, establishes the correlative and reciprocal relation existing between the right of the company to the land, and the right of the owner of the land to the damages awarded. If the land has been taken in such a manner as to vest in the company a right to the use and occupancy of it, compensation is to be made; but no right to such compensation can exist where the land has not been taken.

"The authorities upon the questions involved in this case, we think, are more than ordinarily clear and decisive, and fully establish the principle that the plaintiff has no claim to these damages, as the land has never been taken or occupied by the corporation for the purposes mentioned in their charter; and that the payment of the money, as awarded by the commissioners, is necessary, and is to be treated as a condition precedent to the right of the company to the land, or to any easement growing out of it."

In Neal v. Pittsburgh & Connellsville Railway Company, 31 Penn. St. 19, it is held that, where a railway company had located their road through a man's land, and had the damages assessed by viewers and confirmed by the court, the owner of the land was entitled to execution for the amount as upon a judgment in his favor, although the company had not taken possession, and had instituted proceedings to ascertain the advantages of another route with a view to change the location.

The court say, "Though railroad companies may make experimental surveys at pleasure before finally locating their road, yet certainly it has never been granted to them to have experimental suits at law as a means of chaffering with the land-owner for the cheapest route."

public generally by reason of the public improvement. And where damages are assessed for a railroad, it should include compensation for all actual loss to which the owner will be subject by reason of the proper construction and operation of the road. The proper mode of ascertaining damages for a right of way of a road across lands is to determine the market value of the premises before the right is set apart, and then again immediately after, and the difference will be the true measure of damages. Present values and the immediate and necessary consequence of parting with the right conferred being alone proper to be considered, and future benefits, abuse of privilege and unwillingness of the owner to part with the right should be disregarded. The condition in which the premises will be left after the right of way is taken, together with the damages assessed, should be equal to the value of the premises immediately before the right of way is taken.[2] Present depreciation, and not anticipated injuries, is the measure of damages,[3] although future exposure to fire may be proper to be considered by a jury in estimating them, as it would tend to reduce the present value."[4]

[1] Jacob v. City of Louisville, 9 Dana (Ky.), 114; 2 Kent's Com. 339 and notes; Isreal v. Jewett, 29 Iowa, 475; Fleming v. The Chicago, etc., R. Co., 34 id. 353.

[2] Watson v. The Pittsburgh, etc., R. Co., 37 Penn. St. 469; Schuylkill Nav. Co. v. Thoburn, 7 S. & R. 411; Deaton v. Polk Co., 9 Iowa, 594, Preston v. Dubuque, etc., R. Co., 11 id. 15; Henry v. Dubuque, etc., R. Co., 2 id. 288; Sater v. Burlington, etc., R. Co., 1 id. 386.

[3] Wilmington, etc., R. Co. v. Stauffer, 60 Penn. St. 374.

[4] Field on Dam., § 846; citing Colville v. Railway, 19 Minn. 282. See, also, Pottstown Gas Co. v. Murphy, 39 Penn. St. 257; Hornstein v. Atlantic, etc., R. Co., 51 id. 87; Buckwalter v. Blackrock Bridge Co., 38 id. 281; Dearborn v. The Boston, etc., R. Co., 4 Foster (N.H.), 179; Mt. Washington R. Co.'s Petition, 35 N. H. 134; Minnesota Cent. R. v. McNamara, 13 Minn. 508; Winona, etc., R. Co. v. Waldron, 11 id. 515; Fleming v. Chicago, etc., R. Co., 34 Iowa, 553; Deaton v. County of Polk, 9 id. 594; East Penn. R. Co. v. Hottenstine, 47 Penn. St. 28; Searl v. The Lackawanna, etc., R. Co., 33 id. 57; Patten v. North Cent. R. Co., id. 426; Dorlan v. East Brandywine, etc., R. Co., 46 id. 520; Town of Lambertville v. Clevinger, 30 N.J.L. 53; Amsden v. Dubuque, etc., R. Co., 28 Iowa, 542; San Francisco, etc., R. Co. v. Caldwell, 31 Cal. 367; Tingley v. City of Providence, 8 R. I. 493; Bangor R. Co. v. McComb, 60 Me. 290; Thompson v. Grand Gulf R. Co., 3 How. (Miss.) 240; Bonaparte v. Camden, etc., R. Co., 1 Bald. (U. S. C. C.) 205; Rexford v. Knight, 11 N. Y. 308; Bloodgood v. Mohawk, etc., R. Co., 18 Wend. 9; Baker v. Johnson, 2 Hill, 342; People v. Hayden, 6 id. 359.

Mr. Redfield observes in reference to the mode of estimating damage as follows. "But this is most readily and fairly ascertained by determining the value of the whole land, without the railway and the portion remaining after the railway is built. The difference is the true compensation to which the party is entitled." 1 Redf. on Rail, § 71. This gives the owner the benefit anticipated from the building of the road, from which others in close proximity to the road may be equally benefited. And the

SEC. 410. **Elements of damages which may be considered.** — In estimating the damages sustained, the appraisers, however selected, or the jury, where it is submitted to a jury, may consider not only the present, but the prospective injury which the party will sustain by a prudent construction and operation of the road. Thus, they may take into account the effect which a proper construction of the road will have in diminishing deposits of sediment on the balance of the land;[1] the deterioration of the balance of the land; the additional risk by fire and care of family and stock, in consequence thereof; the inconvenience of embankments, excavations and other obstructions to the free use of the land or buildings;[2] the increase or decrease in value of the remaining lands, and the additional expense of fencing.[3] But these elements and considerations should be considered as affecting the present damages for the taking of the land; the true rule being, as we have stated it, viz., the difference between the value of the land before and immediately after the appropriation, as affected by the various circumstances which we have indicated. But where the whole land of a party is taken, the measure of damages would be the whole value of the land at the time of the taking, without regard to the anticipated benefits which may result from the construction and operation of the road.[4]

SEC. 411. **Land injuriously affected but not taken.** — It is a generally recognized doctrine of the common law, that railroad corporations are not liable for the incidental damages occurring to premises not taken, under the exercise of the right of eminent domain, provided they exercise proper care in the construction and operation of their roads. Such damage is *damnum absque injuria*, and no action can be maintained therefor.[5] But

right to consider benefits to be derived in common with others has been questioned in many cases, as an element to reduce the amount of compensation for the appropriation of lands, by railroad corporations.

[1] Concord R. Co. v. Greely, 21 N. H. 237.

[2] Somerville, etc., R. Co. v. Doughty, 22 N. J. L. 495.

[3] Greenville, etc., R. Co. v. Partlow, 5 Rich. (S. C.) 428.

[4] See notes, *supra;* Little Miami R. Co. v. Collett, 6 Ohio (N. S.), 182; Pacific R. Co. v. Chrystal, 25 Mo. 544. See, also, in case of woodlands, Ryder v. Striker, 63 N. Y. 136. The value should be fixed at the time proceedings are commenced. Graham v. Connersville R. Co., 36 Ind. 463; 10 Am. Rep. 56.

[5] Field on Dam., § 43.

they would be liable for diverting a stream of water from its natural course, whereby a person sustains damage,[1] or doing any other damage to the adjoining lands which, by the exercise of

[1] Hatch v. Vermont Cent. R. Co., and Whitcomb v. Same, 25 Vt. 49.

In reference to such cases, REDFIELD, C. J., observed:

"The important question in the case is, how far this railway company is liable for consequential damage to lands near their track, but no part of which is taken, by them, for any purpose. It seems to be conceded in the argument for the plaintiff, and assumed on all hands, that nothing in the company's charter, or in any general statute of the state, in force at the time, in terms made them liable for such damage. Indeed, this assumption seems indispensable to enable the plaintiff to get along with his case. For, if such remedy is given by statute, it is probably exclusive, or at all events it would doubtless often have been resorted to long before this. But no such claim has ever been made, by any one; and this may be regarded as pretty satisfactory proof that no such express provision exists. The English courts seem to consider a provision in the charter for assessing damages, in a summary way, exclusive and not a cumulative remedy. East and West India Docks, etc., v. Gattke, 3 Eng. Law & Eq. 59; Watkins v. Great Northern Railway, 6 id. 179.

"It must be conceded, then, that so far as a general, unqualified grant of the legislature will enable the defendants to build the road, and continue its operation, without liability for consequential damage to the proprietors of the land, not taken, they are acquit of all such liability There is no doubt the legislature might have granted the charter with this liability attached to the company, or any other which they saw fit to attach. The accepting of the charter was not imperative upon the company. But having accepted it, they are bound by its conditions, and entitled to all its privileges. And it seems to us fair to assume that no such obligation being imposed upon the company, in the charter, or by the general statutes of the state then in force, it was the purpose of the legislature to exempt them from such obligation, so far as they had the power to do so. The reason for doing this it is scarcely needful to discuss. It was, doubtless, esteemed some object to encourage such companies to build their roads. The extent of such injuries had not been much considered, perhaps, at that time, and almost all our citizens then esteemed a desideratum to bring a railway as near them as possible, the nearer the better. I should not probably be able to give much force to an argument, which is said to influence some minds, that it would be impossible for any company to stand up under such a burden. I should probably think, if such was the statute or the law, that they must stand up under it, or fall before it. And it seems to me, that such a statute regulation, which exists in England, and in Massachusetts, and perhaps in some of the other states, is highly equitable and just. And if these public works cannot be maintained upon fair and just grounds, by individual enterprise, they must be fostered by public grants, or delayed till they can be thus maintained. But if, instead of this, the legislature sees fit to annex no such condition to the charter, and thus virtually, so far as they have the power, exempt them from any such obligation, the company are entitled to have their rights fairly and fully vindicated, in the tribunals of the state, the same as other citizens. Nor should this be done grudgingly, or by compulsion, but justly and equitably, the same as in other cases of like character. If the character of parties should come to be the measure of their rights, and this to be determined by the fallible judgments of imperfect humanity, swayed or seduced by the conceits, the passions, and the prejudices of the moment, men might almost as well resort at once to their ultimate rights, before civil government existed.

"If, then, the legislature have purposely exempted this company from such an obligation, we do not well perceive how the plaintiff will be fairly able to deprive them of the

due care, and the adoption of proper methods might have been avoided. The presumption in all cases is, that the grant only contemplates such injury from its exercise as inevitably results

benefit of the exemption, unless he can show that such an exemption is a violation of the constitutional restrictions upon the power of the legislature, or else that it is exempting a particular person from the general liability, by law attaching to all other persons, similarly situated, and in such case, the exemption would be void, probably, as an act of special legislation, upon general principles of reason and justice, like a particular act, allowing one citizen perpetual exemption from punishment for all offenses, or from all liability for torts.

"Perhaps it may be useful to consider this latter ground first. It should be premised, in the very outset, that it is no fair test of the general liability of a railway company for their acts, to argue from what natural persons may lawfully do, and what, if done by them, becomes a nuisance. There is no doubt, that if an individual, or a mere partnership, should do all that the defendants' company do daily, in the village of Burlington, they would become indictable for the continuance of a common nuisance, and a mere statute of exemption from liability to prosecution for crime would not affect their liability. And any citizen suffering special damage, by means of such nuisance, might have his action, or enjoin the offenders ordinarily, in equity.

"But here the sovereignty of the state have seen fit to confer upon this company an important franchise, a considerable portion of that sovereignty which themselves possess, the right to construct and continue a railway, almost from one extreme of the state to the other, with slight limitations as to its course, and providing no tribunal but their own engineers to determine its location. The location which they adopt, then, is conclusive of their rights to build the road in that place as to every one, unless resisted by some proceeding, taken at the time of the location, and brought to bear directly upon the question of the location of the road. If the plaintiff, or others interested in the location of this road, would insist that it is improperly located, inasmuch as it is in a too populous portion of the village, to allow of such a work, this should have been done, by *mandamus*, or injunction, or some proper process, to arrest and correct the evil, at the time of its being built. But it is now too late to bring this matter in discussion, perhaps, in any form, or at any time, since the decisions in Lexington and Ohio R. R. v. Applegate, 8 Dana, 289, reversing the decision of Chancellor BIBB, Philadelphia and Trenton R. R. Co., 6 Wharton, 25, and many other cases, and especially the discussions in regard to the railways in the city of New York, and the fact that in the largest cities upon the continent the efforts of the constituted authorities have hitherto been found almost powerless for the regulation merely of the operation of railways, and locomotive engines, in her principal thoroughfares, and have made no approach toward an exclusion of them even there.

"It will, therefore, scarcely be claimed that the operations of the defendants, in the village of Burlington, are a mere nuisance. There was nothing in the proof tending to show that they were so conducted as to be made such by reason of mismanagement as to the time and manner of carrying on their operations, as seems to have been held in *some* of the New York cases, where the operation of engines, near a church, on Sunday, during the time of public worship, was regarded as actionable, as a common nuisance, causing special damage to this church as a corporation. The First Baptist Church, etc., v. Sch. & Troy R. R. Co., 5 Barb. 79. But the precise contrary doctrine was held, it seems, in The First Baptist Church, etc., v. Utica R. R., etc., 6 Barb. 313. And in Drake v. Hudson R. R., etc., 7 Barb. 508, it was held generally, that a road running through streets in a city does not amount to the infringement of private rights, provided the passage is left free to travel. The owners of property bounded on streets have no exclusive right of property in them.

from the doing of the act at all, and that of these two methods by which the act may be done, one of which, if pursued, will result in damage to others, and the other not, that the legislature contemplated only the doing of the act by the method which would produce no damage.

It belongs to the corporation, *the legal owners of the soil*, to manage and regulate the use of the streets. See note to 7th ed. Kent's Com., vol. 2, p. 398, by Kent and Eaton. It is said, in the last case, that for any injury done to the adjoining proprietors they may have an action on the case.

"The question still recurs, what is to be regarded as a legal injury? If the operations of the railway in that place are to be regarded as altogether legal, and the adjoining proprietors have no interest in the soil under the street, as in the case of an ordinary highway in the country, which seems to be the view taken by the court here, then the ordinary carrying forward of the business of the railway, although it may cause annoyance and damage to the dwellers along the street, could scarcely be regarded as a legal injury, for which an action will lie. In the language of the law, it is *damnum absque injuria*. If the company constructed their road in an improper manner, thus causing needless damage to the adjoining proprietors, or if they wantonly or negligently run their cars, or carry on their operations, so as in any manner to cause needless damage to such proprietors, they would be entitled to a remedy, by action.

"But, upon general principles, the defendants may conduct their lawful business, in a reasonable and prudent manner, 'with as little injury to plaintiff's premises as was consistent,' etc., in the language of the bill of exceptions in this case. It seems to be well-settled law, that the first occupier of land acquires no right (within the period of prescription for presuming a grant) to exclude an adjoining proprietor from the free use of his land, in any proper mode, by erections or excavations. A building, which has stood more than twenty years, is presumed to have a grant to have its walls supported by the adjoining land, and that its ancient lights shall not be darkened. 1 Bac. Abr. 77, citing 22 H. 6, 15; 9 Co. 59; Bland's case, cited Bulstrode, 115; 2 Rolle's Abr. 107, 143; 3 Leon. 93. The same rule is laid down in all the elementary writers, and generally recognized in the English reports. But, in some of the American states, this doctrine of ancient lights is questioned, or denied. Parker & Edgarton v. Foote, 19 Wend. 309. But when no such question arises, the adjoining proprietors may excavate or put up erections to any extent, with impunity, using proper precautions to cause no unnecessary damage. Prior occupancy gives no exclusive rights. Panton v. Holland, 17 Johns. 92; Thurston v. Hancock, 12 Mass. 220, where the subject is very elaborately discussed and satisfactorily determined. It is here held, that if one, by digging into his own soil, cause the surface of his neighbor's land to slide into the pit, or cause damage to his neighbor's erections, by not using proper and reasonable precautions in making his excavations, for such damage an action will lie, but not for removing his earth in a prudent manner, whereby his neighbor's soil or erections caved and fell, by reason of extraordinary weight put upon the land."

CHAPTER XVIII.

QUO WARRANTO.

SEC. 412. The writ of *quo warranto* at common law.
SEC. 413. Proceedings in the nature of *quo warranto*.
SEC. 414. The remedy regulated by constitutional and statutory provisions.
SEC. 415. As a remedy against private corporations.
SEC. 416. The fact of non-user or mis-user must be clear.
SEC. 417. As a remedy for an unlawful usurpation of an office in a private corporation.
SEC. 418. Possession and user of the assumed office, essential.
SEC. 419. Non-user as a ground for forfeiture.
SEC. 420. Destruction of the objects of a corporation, as a ground of forfeiture.
SEC. 421. Pleadings. Evidence.
SEC. 422. Judgment.
SEC. 423. Nothing forfeited to the state but the franchise.

SEC. 412. **The writ of quo warranto at common law.**— The extraordinary remedies by injunction, *mandamus*, prohibition, *quo warranto*, etc., may be used by and against corporations, as well as natural persons. But as special treatises are devoted to these subjects we do not deem it necessary fully to consider any of them, except *quo warranto*, which relates more intimately and exclusively to corporate rights and franchises. A writ of *quo warranto* is in the nature of a writ of right, against one claiming or usurping an office or franchise, to inquire by what authority he supports his claim, in order to determine the right. It lies also in case of non-user or long neglect of a franchise, or mis-user or abuse of it, and it commands the defendant to show by what warrant he exercises such a franchise, having never had any grant of it, or having forfeited it by neglect or abuse.[1] The operation of the writ was extended by a statute of Edward I, but the antiquity of its origin is such as to afford only matter for profitless speculation. It is not even clearly known when it fell into disuse, being superseded by the information filed in the court of

[1] 3 Bl. Com. 262.

king's bench by the attorney-general, in the nature of a writ of *quo warranto*. The judgment upon the writ was final and conclusive, when against the crown.[1] It was purely of a civil character, and its process was tedious.

The proceeding by information, though criminal in form, and designed to punish the usurper by a fine, as well as to oust him, or to seize the franchise, has long been applied to the mere purpose of trying the civil right, the fine being nominal only.[2]

The terms "*quo warranto*," and "information in the nature of *quo warranto*" are generally used synonymously.[3] As, for instance, where the constitutions of certain of the states authorize the issue of the "writ of *quo warranto*," it has been held in Wisconsin,[4] in Florida,[5] and in the earlier Missouri cases,[6] that jurisdiction was also given of the information in the nature of the writ; although later Missouri decisions,[7] as well as those of Arkansas,[8] assert a contrary doctrine, the rule is believed to be nearly invariable. Some of the states have substituted a statutory process in the place of the common-law proceeding, designated to be shorter and simpler than the latter, but partaking of its general nature, both in form and in the objects to be attained, and governed by the same general rules. Although the object of the proceeding is to inquire into the legality of the acts of a corporation, and, if necessary, to declare its franchises forfeited to the sovereignty conferring them, it is not every act of non-user or mis-user for which a forfeiture will be decreed. It will not be decreed for mistakes or unintentional errors. The wrong complained of must relate to the essence of the corporate grant, and the violation of duty must be manifest. An act done which wholly destroys the objects and purposes for which the charter was given, affords ground for forfeiture.[9] If non-user is com-

[1] 1 Sid. 86.

[2] 3 Bl. Com. 263; State v. Gleason, 12 Fla. 190; Rex v. Francis, 2 D. & E. 484; State Bank v. State, 1 Blackf. 267; 2 Kyd on Corp. 439.

[3] Attorney-General v. Utica Ins. Co., 2 Johns. Ch. 371, 376; State v. West Wisconsin Ry. Co., 34 Wis. 213.

[4] State v. West, Wisconsin Ry. Co., 34 Wis. 197.

[5] State v. Gleason, 12 Fla. 190.

[6] State v. Merry, 3 Mo. 278; State v. McBride, 4 Mo. 303.

[7] State v. St. Louis Ins. Co., 8 Mo. 330; State v. Stone, 25 id. 555.

[8] State v. Ashley, 1 Ark. 279, 513; State v. Real Estate Bank, 5 id. 595; State v. Johnson, 26 id. 281.

[9] State v. Real Estate Bank, 5 Ark. 595; People v. Hudson Bank, 6 Cow. 217.

plained of, it must be a total non-user, not a mere refusal to act, or a mere refusal to pay, resulting from insolvency.[1]

A breach of the implied duties to which a corporation is clearly subject may be visited with the same penalty as a breach of those expressed.[2] The charter of an insurance company has been declared forfeited upon proceedings in *quo warranto* where the company, without authority, engaged in a general banking business.[3] Also where a bank, prohibited by its charter from making loans at more than a stipulated rate of interest, and from dealing in promissory notes, willfully violated these restrictions.[4] *Quo warranto* will not lie against a railroad company in behalf of a stockholder, merely because the corporation issued stock below its par value, and began to construct its road before the requisite amount of stock was subscribed; it not appearing that the petitioner's private right or interest was thereby put in hazard.[5] It was maintained against a turnpike company for violating its charter in not annually exhibiting its accounts to the governor and council.[6]

It has been held to be the proper method of testing the constitutionality of the charter of a private corporation.[7] *Quo warranto* has been held to be necessary, where there is a body corporate *de facto*, which assumes to act, but which, from a defect in its constitution, cannot legally exercise the power assumed.[8] In Pennsylvania, it has been held, that *quo warranto* may be maintained against the trustees of an incorporated church; but that the court will refuse or grant leave to file the information, according to circumstances.[9] In the same state it has been held that an information will not be granted against the minister of a religious society, where the relator and the defendant do not claim under

[1] People v. Niagara Bank, 6 Cow. 196; People v. Hudson Bank, id. 217; Rex v. Stacey, 1 T. R. 1; DeCamp v. Alward, 52 Ind. 468; Importing, etc., Co. of Georgia v. Lock, 50 Ala. 332; *Re* Franklin Tel. Co., 119 Mass. 447.

[2] Attorney-General v. Petersburgh & Roanoke R. R. Co., 6 Ired. 461.

[3] People v. Utica Ins. Co., 15 Johns. 358.

[4] Commonwealth v. Commercial Bank of Penn., 28 Penn. St. 383.

[5] Hastings v. Amherst & Belchertown R. R. Co., 9 Cush. 596. See, also, Commonwealth v. Allegheny Bridge Co., 20 Penn. St. 185.

[6] Commonwealth v. Tenth Mass. Turnpike, 11 Cush. 171.

[7] People v. Marshall, 1 Gilm. (Ill.) 672; Williams v. Illinois Bank, id. 667.

[8] Baker v. Backus, 32 Ill. 79; Crystal Lake Ice Co. v. Backus, 32 Ill. 116.

[9] Commonwealth v. Arrison, 15 S. & R. 127; Commonwealth v. Graham, 64 Penn. St. 339.

the same charter.[1] In New York, *quo warranto* has been maintained against the trustees of a college, who usurped the franchise of establishing a branch, and appointing professors, at a place other than that of the location of the college.[2] An information against a turnpike company has been refused, when the wrong complained of consisted in opening a road through private land, without making compensation; another remedy existing.[3] So it has been held to be not the proper remedy for the recovery of land, except when the land has escheated or been forfeited to the state, for its use.[4]

It was formerly a disputed question whether the proceeding was available against one intruding himself into an office of a private corporation. The question, however, has for some time been settled in favor of the jurisdiction. In a Pennsylvania case, decided in 1827,[5] the point was fully argued, and the cases learnedly reviewed. Tilghman, C. J., said: "I find no instance of an information in the nature of a *quo warranto* in England, except in a case of a usurpation of the king's prerogative, or of one of his franchises, or when the public, or at least, a considerable number of people, were intended." * * * "I incline to the opinion, that in all cases where a charter exists, and a question arises concerning the exercise of an office claimed under that charter, the court may, in its discretion, grant leave to file an information. Because in all such cases, although it cannot strictly be said that any prerogative or franchise of the commonwealth has been usurped, yet, what is much the same thing, the privilege granted by the commonwealth has been abused. The party against whom the information is prayed has no claim but from the grant of the commonwealth, and an unfounded claim is an usurpation, under pretense of a charter, of a right never granted." There is nothing in the English authorities inconsistent with the foregoing, and in the courts of the various states the question is no longer an open one.[6]

[1] Commonwealth v. Murray, 11 S. & R. 73.

[2] People v. Geneva College, 5 Wend. 211.

[3] People v. Hillsdale & Chatham Turnpike Co., 2 Johns. 190.

[4] State v. Shields, 56 Ind. 521.

[5] Commonwealth v. Arrison, 15 S. & R. 127.

[6] Commonwealth v. Union Ins. Co., 5 Mass. 231; State v. Buchanan, Wright (Ohio), 233; Murphy v. Farmers' Bank, 20 Penn. St. 415; Commonwealth v. Graham, 64 Penn. St. 339.

The usurper, however, must be an officer, strictly speaking, and not a mere servant. As, for instance, *quo warranto* has been refused against the secretary and treasurer of a railroad company, on the ground that he was a servant only, holding at the will of the directors.[1] It has been refused also, when resorted to against the trustees of an insurance company, to forfeit their offices, on the ground that they held subordinate employments under the corporation, such as solicitor and traveling agent; the latter not being officers of the company.[2]

As the information is in form criminal, process must run in the name of the people.[3] At common law, private individuals, without the intervention of the crown officer or attorney-general, cannot file an information.[4] An information by the attorney-general *ex officio* is filed on his own authority. Under the English practice, an individual specially affected or injured by a usurpation of office, or other wrong or injury to the public, may file in the court of king's bench an application for a direction to the master of the crown office to file an information to redress the public wrong of which the relator complains, whereupon, security for costs being given, notice usually issues to the party complained of, and probable cause being shown, the master of the crown office is directed to file an information at the suit of the king, but naming the relator, after which the suit is conducted by the relator at his own expense, much in the nature of a civil suit. In Massachusetts, it has been held that, except in the limited number of cases in which it is provided by statute that an individual may, upon leave of court, file an information, the discretion of the attorney-general will not be controlled, nor will the court direct or advise him as to his duties in the premises.[5] In Ohio, on the contrary, the court held that if, in a proper case, the prosecuting attorney declines to apply for a rule to show cause why the writ should not issue, the court will order him to make it peremptorily, or will direct it to be made by another person according to circumstances.[6] In this case, the application was

[1] People v. Hills, 1 Lans. 202.
[2] Commonwealth v. McBride, 4 Leg. Gaz. (Penn.) 338.
[3] Donnelly v. People, 11 Ill. 552; Hay v. People, 59 id. 94.
[4] Goddard v. Smithett, 3 Gray, 116.
[5] Goddard v. Smithett, 3 Gray, 116; Rice v. Commonwealth Bank, 126 Mass. 300.
[6] *Re* Mount Pleasant Bank, 5 Ohio, 249.

made by an attorney of the court, in the name of a private individual.

Where leave is required, it will usually be granted, if the right, or the fact on which the right depends, is disputed and doubtful.[1] But not when another remedy exists, either at common law[2] or under a statute;[3] or if the right has already been determined by *mandamus*;[4] or if it depends on the right of those who voted for defendant, and this right has not been settled; or if the right has been acquiesced in for a length of time;[5] or if it appear that the official term of the incumbent of the office will expire before a determination upon the proceedings can be had;[6] or where the party moving has waived his right or forfeited his claim to assert it; as where, knowing the illegality of an election, he participates in corporate meetings, and recognizes and acquiesces in the result.[7]

The conduct or motive of the relator may properly be considered upon the application to grant leave to file the information; leave has been refused, where the relator was a stranger, showing no interest in himself and failing to show that the public interest required that the proceeding be instituted;[8] where he was shown to be the tool of one to whom the application would have been refused;[9] when the application is made to obtain, indirectly, a decision upon his own case, which he might bring directly before the court.[10]

In those of the United States where the jurisdiction is not conferred by constitutional or statutory provisions in analogy to the

[1] Rex v. Latham, 3 Burr. 1485.

[2] State v. Marlow, 15 Ohio St. 114; State v. Taylor, id. 137; People v. Hillsdale, etc., Co., 2 Johns. 190; State v. Wadkins, 1 Rich. 42.

[3] Updegraff v. Evans, 47 Penn. St. 103; Hullman v. Honcomp, 5 Ohio St. 237.

[4] 2 Hawk. P. C., chap. 26, § 9.

[5] Bac. Abr., Informations. The length of time of the acquiescence was formerly indefinite, varying with each case. In England, it was finally fixed by the court at twenty years, then reduced to six, which last period was confirmed by act of 32 Geo. III, stat. 58; in Ohio the statute period of limitation is three years.

[6] People v. Sweeting, 2 Johns. 184; Commonwealth v. Athearn, 3 Mass. 285; Commonwealth v. Sparks, 6 Wharton (Penn.), 416; Commonwealth v. Smith, 45 Penn. St. 59; this rule does not prevail in England; though there can be no judgment for the ouster, judgment may be rendered for the fine. Rex v. Payne, 2 Chitty, 367.

[7] State v. Lehre, 7 Rich 234; Rex v. Stacy, 1 T. R. 1.

[8] Rex v. Grant, 11 Mod. 229; Rex v. Stacey, 1 T. R. 3; Miller v. English, 1 N. J. 217.

[9] Rex v. Stacey, 1 T. R. 3; Rex v. Cudlipp, 6 id. 503; Rex v. Trevenen, 2 B. & Ald. 344, 482.

[10] Rex v. Anderson, 3 Q. B. 740.

English practice, the process usually issues from the highest court of original jurisdiction. It has been held that it cannot issue from an appellate court, or from a court whose subjects of jurisdiction are defined by law, and which do not include *quo warranto*.[1]

In *quo warranto* and proceedings in the nature thereof, the ordinary rules of pleading prevail.[2] If for mis-user, the facts necessary to show the mis-user must be set forth with the exactness of pleading required in a penal action.[3]

The usual process is a *venire facias* in the first instance, followed by a *distringas*.[4] Siderfin,[5] after comparing the precedents in Coke's Entries, declares the process upon the information to be as above stated, while that upon the writ he declares to be a summons in the first instance, and that for default of appearance, the liberties shall be seized.[6]

The judgment seems to be the same upon the information as upon the writ.[7] In a New York case,[8] SAVAGE, C. J., thus states the distinction between the judgment against the individuals and that against the corporation. "Whenever individuals or a corporation shall be found guilty, either of usurping or intruding into any office or franchise, or of unlawfully holding, judgment of ouster shall be rendered, and a fine may be imposed; but when the proceeding is against a corporation, and a conviction ensues for mis-user, non-user or surrender, judgment of ouster and of dissolution shall be rendered; which is equivalent to judgment of seizure at common law." An English case[9] thus states the distinction: "When it clearly appears to the court that a liberty is usurped by wrong, and upon no title, judgment only of ouster shall be entered. But when it appears that a liberty has been granted, but has been mis-used, judgment of seizure into the king's hands shall be given."

[1] State v. Ashley, 1 Ark. 279; *Ex parte* Attorney-General, 1 Cal. 85.

[2] People v. Clark, 4 Cow. 95. For the form of the information, see People v. Utica Ins. Co., 15 Johns. 362; Commonwealth v. Fowler, 10 Mass. 290; for the substance, see State v. Tudor, 5 Day, 329; see also English precedents in 6 Wentworth's Pleadings, 28-234, and an outline of the English form in 2 Kyd on Corp. 403.

[3] People v. Kingston, etc., Turnpike Co., 23 Wend. 193.

[4] 2 Kyd on Corp. 438; King v. Hertford, 1 Salk. 374; S. C., Carthew, 503; Com. Dig., *Quo Warranto;* State Bank v. State, 1 Blackf. 273.

[5] Note to Le Roy v. Trinity House, 1 Sid. 86.

[6] Kyd and some other writers speak, probably erroneously, as though the *venire facias* and *distringas* were used indifferently with the subpœna and attachment.

[7] 2 Kyd on Corp. 406.

[8] People v. Saratoga & Rensselaer R. R. Co., 15 Wend. 128.

[9] Rex v. London, 2 T. R. 522.

The form of the judgment at common law was formerly the subject of some discussion and dispute, as to whether it should be of seizure, ouster, or mixed of both.[1] The question is no longer of much practical importance, having been set at rest by statutes or decisions in most of the states.

At common law neither party could recover costs. In England this rule was changed by the statute 9 Anne, chap. 20. In Pennsylvania, when the statute of Anne had not been re-enacted, it was held that costs were not recoverable. In most of the states, however, costs follow the judgment, as in suits generally.

The common-law process after judgment of forfeiture was a writ of seizure to the sheriff, which, after reciting the proceedings, commanded him to seize the liberties, etc.[2] The judgment of forfeiture may be the same for non-user, where no property has been held or rights exercised, as for mis-user, after the acquisition of property and the exercise of power,[3] and the forfeiture is of the franchises, not of the property of the corporation. This distinction was learnedly and fully discussed in an Indiana case,[4] in which the English authorities were reviewed.

Sec. 413. **Proceedings in the nature of quo warranto.**— In most of the states proceedings are authorized by statute in the nature of *quo warranto*. The proceeding is authorized for substantially the same purpose, namely: to correct usurpations in office or abuse of corporate franchises. And the term *quo warranto* is frequently used in constitutions and statutes when proceedings in the nature of *quo warranto* are meant.[5]

[1] The English cases on this head are collected in 2 Kyd on Corp. 407–409. Kyd, citing Co. Ent. 535 *b*, 537, *a*; Rast. 540 *b*, gives the following as the form of entry when judgment is for the defendant: "It is considered that the liberties, etc., be allowed to the said ———;" or thus: "the said ——— may use, have and enjoy all the said, etc.; and the said ———, as to the said premises, may be dismissed from this court, saving always the right of the said lord, the king, if hereafter," etc. Forms of judgment are given in 6 Wentw. Plead. 13, 89, 161 and 242. A form will be found in Commonwealth v. Fowler, 11 Mass. 339.

[2] Kyd on Corp. 410, citing Co. Ent. 539, *b*.

[3] State Bank v. State, 1 Blackf. 281; King v. Amery, 2 T. R. 515.

[4] State Bank v. State, *ante*.

[5] See Bouv. Law Dic. *Quo warranto* is not issuable by a court whose jurisdiction, as defined by the constitution of the state, is strictly appellate. State v. Ashley, 1 Ark. 279; *Ex parte* Attorney-General, 1 Cal. 85. Nor is its issue a matter of right, but rests in the sound discretion of the court, Comm. v. Arrison, 15 S. & R. 127, and

Mr. Justice SPENCER, in relation to this question and the use of the term in the constitution of New York, observes: "An information in the nature of *quo warranto* is a substitute for that ancient writ which has fallen into disuse, and the information which has superseded the old writ is defined to be a criminal method of prosecution, as well to punish the usurper by fine for the usurpation of the franchise, as to oust him, and seize it for the crown. It has for a long time been applied to the mere purpose of trying the civil right, seizing the franchise or ousting the wrongful possessor, the fine being nominal only." [1]

And DIXON, C. J., observes: "Now it was with the view of this well-known jurisdiction, then and long before exercised only in the proceeding by information, that the framers of the constitution gave or reserved the power to this court, using for convenience and brevity merely the words 'writ of *quo warranto*,' just as those words were used by Chancellor KENT in *Attorney-General* v. *Utica Insurance Company*, 2 Johns. Ch. 371, 376, and as they had been used in our own statute, * * * as

it will only issue in favor of a relator having an interest to be affected, Comm. v. Cluley, 56 Penn. St. 270; consequently it will not be issued at the suit of a private relator who has no interest, to perfect the charter of a private corporation. Comm. v. Alleghany Bridge Co., 20 Penn. St. 185; Comm. v. Farmers' Bank, 2 Grant's Cas. (Penn.) 392. Nor even in Pennsylvania will the writ be maintained to *dissolve* a corporation unless upon the relation of the attorney-general or some authorized agent of the state. Murphy v. Farmers' Bank, etc., 20 Penn. St. 415. In Massachusetts, under the practice act of 1852, § 42, which is still in force, which enacts that any person whose private right or interest has been injured, or is put in hazard, by the exercise, by any private corporation or any persons claiming to be a private corporation, of a franchise or privilege not conferred by law, whether such person be a member of such corporation or not, may apply to the supreme judicial court for leave to file an information in the nature of a *quo warranto* — the rule stated in the text no longer prevails in that state; Boston & Providence R. R. Co. v. Midland R. R. Co., 1 Gray, 340; but a religious society is not within the meaning of this act. Goddard v. Smithett, 3 Gray, 116. But in Massachusetts it is held that an information in the nature of a *quo warranto* will not lie without the intervention of the attorney-general, against a corporation regularly organized under the statute of 1870, chap. 224, if the forms of law in the organization of the corporation have been complied with and the certificate has been issued by the secretary of the commonwealth, although the certificate was obtained by fraud. Rice v. Commonwealth Bank, 126 Mass. 300. In New Jersey substantially the same provisions as the statute, 9 Anne, chap. 20, is in force and is construed in the same manner. Individuals may be permitted, as in Pennsylvania, for an usurpation of an office in a corporation, but, even by leave of court, cannot file a writ to dissolve it. State v. Paterson, etc., Turnpike Co., 21 N. J. L. 9.

[1] People v. Utica Ins. Co., 15 Johns. 358.

meaning the same thing and intended to convey the same general idea of the words 'information in the nature of *quo warranto*.'" [1]

Sec. 414. **The remedy regulated by constitutional and statutory provisions.** — The constitutions and statutory provisions of the various states, usually fix the courts that are authorized to administer this remedy and the mode and effect of the remedy in different cases. And usually, the proceeding by *quo warranto*, as well as by the other extraordinary remedies by injunction and *mandamus*, is not authorized when the party claiming it has an adequate remedy by ordinary proceedings.[2] It can only be used to test the actual right to an office or franchise, and not the legality of the official action of corporate officers.[3] And the statute provides for this remedy, to test the right to exercise a franchise, it is held to be exclusive of all other remedies for that purpose.[4]

Sec. 415. **As a remedy against private corporations.** — Having considered, briefly, the origin and history of the writ of *quo warranto*, and the modern substitute for the remedy, by information in the nature of *quo warranto*, and some of the general principles applicable to the remedy, we will now proceed to discuss the remedy more particularly in its application to private corporations.[5]

[1] State v. West Wis. R. Co., 34 Wis. 197.

Dixon, C. J., in this case, construing a clause in the constitution of Wisconsin, giving power to the supreme court of that state "to issue writs of *habeas corpus*, *mandamus*, injunction, *quo warranto*, *certiorari*," etc., further observes:

"It is as impossible to believe that the framers of the constitution were looking back over a period of three or four hundred years, into the middle ages, designing to give this court such jurisdiction and only such as was then exercised in virtue of the writ of *quo warranto*, as it is that they intended to confine the court to that antiquated and useless process. The framers of the constitution were practical men and were aiming at practical and useful results. They used the words 'writ of *quo warranto*,' just as they had been used in common parlance, and by courts, lawyers and writers for hundreds of years, as synonymous with 'information in the nature of *quo warranto*,' which had so long been the complete and unqualified substitute for the writ." State v. West Wisconsin R. Co., 34 Wis. 197. See, also, State v. Gleason, 12 Fla. 190; State v. Merry, 3 Mo. 278; State v. St. Louis Ins. Co., 8 id. 330; State v. Stone, 25 id. 555; Commonwealth v. Burrell, 7 Penn. St. 34; Murphy v. Farmers' Bank, 20 id. 415; State v. Ashley, 1 Ark. 279, 513; State v. Johnson, 26 id. 281.

[2] People v. Hillsdale & C. Turnp. Co., 2 Johns. 190; State v. Wadkins, 1 Rich. 42; State v. Marlow, 15 Ohio St. 114; State v. Taylor, id. 137.

[3] People v. Whitcomb, 55 Ill. 172; Dart v. Houston, 22 Ga. 506.

[4] Updegraff v. Evans, 47 Penn. St. 103; Hullman v. Honcomp, 5 Ohio St. 237.

[5] It is held in Arkansas that the ancient writ is the proper remedy to resume a corporate franchise. State v. Real Estate B'k, 5 Ark. 595.

From what has already been said, it is evident that a corporate franchise is a special privilege or immunity proceeding from the sovereign power, and conferred by a grant from such power. And it is a doctrine universally recognized, that the sovereignty conferring the franchise may, at any time, through the courts it has constituted, inquire into the manner in which the franchise is used. And if the person or association on which the privilege is conferred has been guilty of mis-user or non-user; or if such party has assumed the right of franchise where none exists, the courts may, by the proceedings in the nature of *quo warranto*, declare a forfeiture, or render a judgment of ouster as the circumstances of the cases require.[1] But it is not every act of non-user or mis-user that will justify a judgment of forfeiture. In such cases it is held that these wrongs must, in order to constitute grounds for forfeiture, relate to the essence of the corporate grant, and the contract thereby created between the sovereign and the corporators. But willful and repeated violations of duty in this respect would usually warrant a judgment of forfeiture.[2]

[1] An information in the nature of *quo warranto* lies against a corporation for carrying on banking business without authority, People v. Utica Ins. Co., 15 Johns. 358, or against a person who has usurped the office of a director therein, People v. Tibbitts, 4 Cow. 358, or of trustee. Comm. v. Graham, 64 Penn. St. 339. Indeed an information lies against a corporation for any cause of seizure or dissolution. People v. Bristol, etc., Turnpike Co., 23 Wend. 222. The use of an abbreviation of its corporate name is not an usurpation for which *quo warranto* will lie. People v. Bogart, 45 Cal. 73.

[2] Commonwealth v. Commercial B'k, 28 Penn. St. 383; People v. Kingston & Middletown Turnpike Co., 23 Wend. 193.

In the former case the proceeding was in the nature of *quo warranto* to procure a forfeiture of the charter of the bank for mis-user on the ground of its having dealt in promissory notes contrary to the express provisions of its charter, and loaned money at rates of interest not authorized by it. The court, by LEWIS, C. J., say: "These acts are expressly prohibited by the charter. The question then arises, do these constant and willful violations of the fundamental conditions upon which the charter was granted entitle the commonwealth to demand its forfeiture? The question is not whether a single act or even a series of acts of mis-user, through inadvertence or mistake, may work a forfeiture, but whether the constant and willful violation of these important conditions of the grant produces that effect?

"Mr. Justice STORY, in delivering the judgment of the supreme court of the United States in Mumma v. Potomac Company, held that 'a corporation, by the very terms and nature of its political existence, is subject to dissolution by forfeiture of its franchises for willful mis-user or non-user.' 8 Pet. 287.

"Many years before that decision was pronounced the same principle was fully recognized by the same high authority in Terrett *et al.* v. Taylor *et al.*, 9 Cranch, 43, where the right of forfeiture for mis-user or non-user was held to be 'the common law of the land, and a tacit condition annexed to the creation of every corporation.'

"It is now well settled by numerous

Sec. 416. **The fact of non-user or mis-user must be clear.** — It will occur to every one, on the least reflection, that in the pursuit of the main objects and purposes of corporations organized for

authorities that it is a tacit condition of a grant to a corporation that the grantees shall act up to the end or design for which they were incorporated, and hence, through neglect or abuse of its franchises, a corporation may forfeit its charter, or for a condition broken or for a breach of trust. See Ang. & Ames on Corp., § 776, and the cases there cited.

"In the Attorney-General v. Petersburgh & Roanoke R. Co., 6 Iredell, 461, it was held that the omission of an express duty prescribed by charter is a cause of forfeiture, and that, as implied powers are as much protected by the law as those which are expressed, implied duties are equally obligatory with duties expressed, and their breach is visited by the same consequences. It may be affirmed as a general principle, that where there has been a mis-user or non-user in regard to matters which are of the essence of the contract between the corporation and the state, and the acts or omissions complained of have been repeated and willful, they constitute just ground of forfeiture."

It is considered a mis-user *per se* at common law to neglect the performance of conditions contained in the charter. But will such neglect always constitute grounds for forfeiture? Nelson, C. J., in considering the above question, in People v. Kingston & Middletown Turnpike Co., 23 Wend. 193, observes: "But granting this to be the general principle, the question still comes up for consideration, what departure from the provisions of the charter will work a forfeiture? Shall every omission or non-performance of a condition of the grant have this effect? Though the proceeding by information be against the corporate body, it is the acts or omissions of the individual corporators that are the subject of the judgment of the court. The powers and privileges are conferred and the conditions enjoined upon them, they obtain the grant and engage to perform the conditions, and when charged with a breach I do not perceive any reason against holding them accountable upon principles applicable to an individual to whom valuable grants have been made upon conditions precedent or subsequent. As to him, performance is indispensable to the vesting or continued enjoyment. If a feoffment be made of lands upon condition of paying rent, building a house or planting an orchard, and a failure to perform, the feoffer may enter; so, if an office be granted, a condition is implied that the party shall faithfully execute it, and for neglect the grantor may discharge him. 1 Bacon, 629; 15 Wend. 291; 1 id. 388; 3 id. 498; 13 id. 530.

"Placing corporate grants upon this footing there can be no great difficulty in ascertaining the principles that should govern conditions annexed to them. The analogous cases of individual conditional grants will give the rule. In these a reasonable and substantial performance according to the intent of the grantor is required. Shep. Touch. 133; 15 Wend. 291.

"In cases of conditions subsequent, if impossible to be performed, or rendered impossible by the act of God, the grantee is excused, and the estate is absolute. 2 Bacon, 676, tit. Condition; Shep. Touch. 133, 157.

"So if waste be committed by a stranger it shall not be a breach of the condition of the lease. 2 Bacon, 652. The whole law on the subject will be found reasonable, and nothing will be found unreasonable, and nothing is required but what is within the means and ability of the party to comply with. It is emphatically denied with respect to corporators, for we all know the nature of the conditions in their characters depends very much upon themselves; they usually settle the terms of the grant, and therein consult their own as well as the public interests.

"I have said that the whole law on the subject of performance of conditions precedent or subsequent is reasonable and within the ability of the company to perform. A substantial performance according to the intent of

pecuniary gain, mistakes and unintentional errors will naturally occur that may be in violation of the charter or constating instruments, and that not unfrequently the line between such acts as may be authorized and those which are not will be indistinct.

The courts, therefore, especially in proceedings by *quo warranto* for a forfeiture of the grant on account of mis-user or non-user, exercise great caution and seldom adjudge a forfeiture unless there is a manifest violation of the grant.[1] But where the violation of the charter is clear, and especially if frequently repeated, or where there is an exercise of powers beyond those conferred, as where a corporation authorized to do an insurance business engages in a general banking business, on an information filed against it therefor, in a court of proper jurisdiction, it will render a judgment of forfeiture or ouster against such corporation.[2]

the charter is all that is required. Under the issues that are presented this will be a question on the trial. If such a performance is shown the defendants will be entitled to a verdict.

"The law in respect to individual grants on condition will afford familiar principles to guide the court and jury. Slight departures are overlooked. The learning of the law is against the party claiming the forfeiture, and if the failure is such as cannot be regarded in a court of law upon settled principles, and has arisen from mistake or accident, the legislature will apply the remedy. They and not the court possess the dispensing power."

[1] High on Extra. Leg. Rem., § 649; State v. Commercial Bank, 10 Ohio, 535.

[2] People v. Utica Ins. Co., 15 Johns. 358.

In a case where an information was filed by the prosecuting officer of the state on its behalf, against the defendants, a railway corporation in the state of New Hampshire, alleging a usurpation on the part of the defendants, of the exercise of corporate functions within the state of Vermont in a manner inconsistent with the sovereignty of the state, and claiming process against the state in the nature of *quo warranto*. It appeared that the defendants, a railroad corporation, having a line of railroad through the state of New Hampshire, to line of the state of Vermont at Wells river, erected a bridge across the Connecticut river, in order to connect with certain Vermont railroads, which connection was authorized by express statutes of that state, and purchased about fifteen acres of land, for the use of the former road, useful in doing business at the line of the state, if they should not unite at the line of the state, and indispensable, if they should thus unite. The question presented was, whether the purchase by, and conveyance to them, of the land in Vermont was a usurpation of sovereign powers of the state. On this question REDFIELD, J., observes:

"By their charter, it is admitted, this corporation have permission to hold real estate, for the accommodation of their business, greatly exceeding what they now hold. The question then is, whether the having purchased and taken a conveyance of this land, in this state, is to be regarded as any usurpation upon the sovereignty of this state? And it seems to us very obvious that they have committed no such usurpation; that they have assumed no franchises which are strictly of a prerogative character. By that I mean, such acts as neither natural or

Sec. 417. **As a remedy for an unlawful usurpation of an office in a private corporation.** — It has been a disputed question whether an information in the nature of *quo warranto* was a lawful remedy, in case of an intrusion into an office of a private corporation.

artificial persons can exercise without special grant of the legislature. All the functions of a corporation are, in one sense, franchises. The right to hold property in the corporate name, to sue and be sued in that capacity, to have and use a corporate seal, and by that to contract, and some others, perhaps, are franchises, which constitute the very definition of a corporation. And whenever and wherever the corporation is recognized, for any purpose, the existence and exercise of these franchises must all be recognized. But the right to build and run a railroad, and take tolls, or fares, is a franchise of the prerogative character, which no person can legally exercise, without some special grant of the legislature. And we should not, of course, be expected to suffer a foreign railroad to usurp the exercise of any franchises of this character. This distinction exists in regard to some other classes of corporations. It is only the issuing of notes to be the representative of specie, and to form a portion of the currency, and the other local operations of banking — making discounts and receiving deposits, and the like — which are of a prerogative character. But there are many other franchises of foreign banks, and other business corporations, of which it is of daily occurrence to allow the exercise, in every state in the union. They are allowed to sue and collect their debts, to levy their executions upon land, and take land in payment of debts, when mortgaged, or otherwise. And of all this no doubt is entertained. Mr. Justice McKinley was the only judge who ever had the boldness to hold the contrary, and his decision was speedily reversed by the supreme court. Bank of Augusta v. Earle, 13 Pet. 519, 588.

"This point is expressly decided in the state of New Hampshire, in the case of Lumbard v. Aldrich, 8 N. H. 31, where it was held that "a corporation, created by the laws of another state, has power to take and hold lands in this state." Parker, J., says: "If they may sue, they may satisfy their judgment, by levy upon lands; and of course hold the land and convey it. And if they can do this, they may take title by deed, in satisfaction of a debt, by agreement, or upon any other consideration." The same point is decided in The Silver Lake Bank v. North, 4 Johns. Ch. 370, and in most of the American states. Our own reports are filled with cases in favor of and against foreign corporations, Day v. The Essex County Bank, 13 Vt. 97; Grafton Bank v. Doe, 19 id. 463; Claremont Bank v. Wood, 10 id. 582, occur to me at the moment, and there are, doubtless, twenty other cases of the kind. All the chartered bridge companies across Connecticut river are, of course, incorporations, in most cases the charters having been granted by the legislature of New Hampshire; and it was shown to us, in the trial of this cause, that in very few instances has any grant been obtained from this state. But these bridges, like the railroad bridge in question, must rest at their western termini upon the soil of this state. And all this has been acquiesced in for fifty years and more. This will not indeed settle the rights of this railroad corporation by prescription, as their own existence is of a more recent date. But it goes very far, in my apprehension, toward settling the law of the state, in regard to road and bridge corporations in the states conterminous with this state; and especially when corporations have been created in this state, with express permission to unite with this railroad, or any other New Hampshire road at this point, should I regard it as decisive of the right of the New Hampshire corporation to build their road to the very line of the state, if they could obtain the land for that purpose, without coercive measures. They could not, perhaps, compel the land-owners to yield them the right of way, or even space to sustain the

But it seems now settled in this country that the court may permit the information to be filed in such cases where the claim is only for the benefit of a private citizen.[1] And as the abuse of the

western abutment of their bridge, without a grant from the legislature, of the prerogative power to exercise the right of eminent domain over lands in this state.

"But, having obtained the permission of the land-owners, I should not regard the bringing of their road to the very limits of this state, under the circumstances, as any infringement of the sovereignty of the state, or as any exercise of a prerogative franchise. It is the settled law of England, in regard to aliens even, that if they purchase land by royal license, they may hold it. And in the present case, we could scarcely regard the permission given the Vermont roads by their acts of incorporation, or acts amendatory of such acts, to unite with this or any other New Hampshire roads at the line of the state, at this point, as any thing less than an implied permission to the New Hampshire roads to build their superstructure to the very line of the state. And as this line, at this point, is the 'westernmost bank of the Connecticut river,' the bridge must, of course, in order to bring the rails to the line of the state, rest more or less upon Vermont soil. Allowing them then no prerogative right to eminent domain in the soil, we cannot regard the long practice of bridge companies across the Connecticut river, the actual license of the legislature, and the reason of the case, as justifying any interference with their quiet possession of the land, for the purpose of erecting a bridge, by permission of the owners of the fee of the land, or by means of obtaining the fee in themselves." State of Vermont v. Boston, etc., R. Co., 25 Vt. 433.

[1] In Murphy v. Farmers' Bank, 20 Penn. St. 415, WOODWARD, J., observes: "The usurpation of an office established by the constitution, under color of an executive appointment, and the abuse of a public franchise under color of a legislative grant, are public wrongs and not private injuries, and the remedy by *quo warranto*, in this court at least, must be on the suggestion of the attorney-general or some authorized agent of the commonwealth. * * In questions involving merely the administration of corporate functions, or duties which touch only individual rights, such as the election of officers, admission of a corporate officer or member, and the like, the writ may issue at the suit of the attorney-general, or of any person or persons desiring to prosecute the same. What is a corporation? A franchise. And Blackstone defines a franchise to be a part of the royal prerogative, existing in the hands of the subject. The sovereignty of every state must be lodged somewhere. Limited by such concessions as popular violence has from time to time wrung from reluctant monarchs, it resides, in England, in the crown. In Pennsylvania, it resides in the whole mass of the people, and the three co-ordinate departments of government are the trustees appointed by the people for the exercise of so much of their sovereignty as they have not, by the bill of rights, denied them, nor by the constitution of the United States yielded to the general government. The legislature of Pennsylvania may establish a corporation, that is, grant out a part of the sovereignty of the state, because being a general trustee for the people, and not forbidden, they are qualified to do so. The general government being a government of derivative powers, congress cannot establish a corporation, because the power to do so is not granted. Our legislature can, because the power is not withheld. A corporation then exists in Pennsylvania by virtue of a constitutional exercise of the sovereign power. Its existence is proof of the public will, which is nothing else than the will of the majority. Can one man so employ any of the departments of the government as to tear down the fabric of a majority?

"Regarding the judiciary as one of the trustees of the sovereignty of the

franchise is a public wrong, it has been held that the proceedings, in the absence of other statutory regulations on the subject, should be instituted in the name of the public prosecutor or other agent authorized by the supreme authority of the state, and that a private citizen is not entitled to the remedy even though he be a creditor of the corporation.[1]

people, by which I mean the whole people, how can its functions be called into exercise against the existence of a public institution, except upon the suggestion of some agent of the whole people? If they may, if individual caprice, passion, prejudice, or interest may use the judicial arm of the government to overthrow what the legislative or executive arms have erected, the sovereignty of the majority is extinguished, and the departments of the government intended to work in harmony are brought into fatal conflict. A house divided against itself cannot stand, and no more can a state. If *quo warranto* be given to individuals to dissolve corporations, power will cease to steal from the many to the few, for here will be a transfer of it bodily. With a corrupt judiciary, which the history of other countries teaches us is not an impossible supposition, acting as the instrument of private passions, any institution established by the immediate representatives of the people, and existing by will and consent of the people, and for their convenience and benefit, may be frustrated without appeal or recourse. These are general views which harmonize with the doctrine of the cases. And, therefore, whilst I recognize the right of any relator to have a *quo warranto* in the supreme court who is desirous to prosecute the same to redress any private grievance that falls within that remedy, I deny the right of any party except the attorney-general, or other officer of the commonwealth, to sue for it to dissolve a corporation." See, also, High on Extra. Leg. Rem., § 653; Commonwealth v. Graham, 64 Penn. St. 339; The People v. Tibbets, 4 Cow. 358.

[1] State v. Patterson & Hamb. Turnp. Co., 1 Zabr. 9; Commonwealth v. Farmers' Bank, 2 Grant's Cas. 392; Commonwealth v. Philadelphia, etc., R. Co., 20 Penn. St. 518; Same v. Alleghany Bridge Co., id. 185; Murphy v. Farmers' Bank, id. 415.

And it is said that there is no instance in England where informations have been allowed by leave of court against persons, for usurping a franchise merely private in its nature, and not of a public character. High on Extra. Leg. Rem., § 653; King v. Ogden, 10 B. & C. 230. See, also, Gaylord v. Fort Wayne, etc., R. Co., 6 Biss. 286.

On this subject Chief Justice Tilghman, in Commonwealth v. Arrison, 15 S. & R. 127, says: "I find no instance of an information in the nature of *quo warranto* in that country (England), except in a case of a usurpation of the king's prerogative, or of one of his franchises, or where the public, or at least a considerable number of people, were interested. Neither do I find any case in which it has been denied that the court may, in its discretion, grant it, where an office is exercised in a corporation contrary to the charter. In England the number of corporations is very small, indeed, compared with the United States of America. Consequently the quantity of that kind of business which may be brought into our courts will be much greater than theirs. But that alone is not sufficient reason for rejecting it. We are now to decide a general question on the right of the court; not on the expediency of exercising that right, either on the present, or any other case.

"Now to establish it as a principle that no information can be granted in cases of what the counsel call private corporations might lead to very serious consequences. Perhaps it may be said that banks, and turnpike, canal and bridge companies are of a public nature; but yet they have no concern

And in all cases where he is authorized, a private party must show that he is interested in the matter, before the court will allow him to file an information. But a corporation is regarded as having such interest. Such a party may, however, by his acts, waive his rights or forfeit his claim to the proceeding; as where he, knowing the illegality of an election, participates in proceedings at corporate meetings, and recognizes and acquiesces in the result.[1] The privilege of filing an information, on the part of a private prosecutor, rests in the sound discretion of the court.[2]

SEC. 418. **Possession and user of the usurped office, essential.** — No information will lie unless there is a possession or user of the corporate office, and a usurped possession must be shown as a condition precedent to the filing of an information.[3]

SEC. 419. **Non-user as a ground for forfeiture.** — It is held that to constitute grounds for forfeiture for non-user it should be a total

with the government of the country or the administration of justice. They are no further public than as they have to do with great numbers of people. But if the number alone is the criterion, it will often be difficult to distinguish public from private corporations. Let us consider churches, for example. In some the congregation is very small. How is the court to make the line of distinction? If you say the court has the right in both cases to grant or deny the information, according to its opinion of the expediency, there is no difficulty as to the right. But if it be alleged that there is a right in one case and not the other, the difficulty will be extreme. I strongly incline to the opinion that in all cases where a charter exists, and a question arises concerning the exercise of an office claimed under that charter, the court may, in its discretion, grant leave to file an information. Because, in all such cases, although it cannot be strictly said that any prerogative or franchise of the commonwealth has been usurped, yet, what is much the same thing, the privilege granted by the commonwealth has been abused. The party against whom the information is prayed has no claim but from the grant of the commonwealth, and an unfounded claim is a usurpation, under pretense of a charter of a right never granted."

[1] State v. Lehre, 7 Rich. 234; King v. Stacey, 1 T. R. 1. In England, so far as relates to municipal offices, this is regulated by act of parliament. 9 Anne, chap 20 (1711).

[2] Gunton v. Ingle, 4 Cranch (C. C.), 438.

[3] Queen v. Pepper, 7 Ad. & E. 745; People v. Thompson, 16 Wend. 655.

It is not sufficient to allege that the defendant has accepted the office without specifying the mode of acceptance. High on Extra. Leg. Rem., § 655. But if the party has acted in the office this is sufficient. Id. See, also, Queen v. Slatter, 11 Ad. & E. 505; Queen v. Quale, id. 508; People v. Thompson, 16 Wend. 655.

Every presumption will be made in favor of long possession and use of a franchise. Queen v. Archdall, 8 Ad. & E. 381.

non-user, and not a mere refusal to act as a corporation, or a mere refusal to pay arising from insolvency.[1]

Sec. 420. **Destruction of the objects of the corporation as a ground of forfeiture.** — It is a general doctrine that whenever a corporation does an act or suffers an act to be done which entirely destroys the objects and purposes for which the corporation was instituted, it is a ground of forfeiture.[2]

Sec. 421. **Pleadings — evidence.** — It is not within the proper scope of this treatise to consider the subject of pleadings, practice and evidence in their relation to proceedings in the nature of *quo warranto*. Special treatises are devoted to these subjects, in which the student may find these matters fully presented, not only in so far as they relate to private corporations, but also generally to all proceedings of that nature.

Sec. 422. **Judgment.** — It may be proper, however, to briefly consider the form, nature and effect of the judgment in such cases where the proceedings relate to private corporations. On this subject Mr. High observes: "At common law the judgment upon the ancient writ of *quo warranto*, if for the respondent, was that he be allowed his office or franchise. And in case of judgment for the king for a usurpation of the franchise, or for its mis-user or non-user, a judgment of seizure into the king's hands was rendered if the franchise was of such a nature as to subsist in the hands of the crown; if not of such a nature, there was merely a judgment of ouster for the purpose of dispossessing the party. In case of judgment for a seizure of the franchises in the king's hands, all franchises incident and subordinate thereto, and held by the same grant, were also forfeited."[3]

Under proceedings in the nature of *quo warranto* the form of the judgment must depend upon the nature and character of the

[1] People v. Bank of Niagara, 6 Cow. 196; People v. Bank of Hudson, id. 217; King v. Stacey, 1 T. R. 1. See, also, De Camp v. Alward, 52 Ind. 468; Importing, etc., of Ga. v. Locke, 50 Ala. 332; *Re* Franklin Tel. Co., 119 Mass. 447.

[2] State v. Real Estate Bank, 5 Ark. 595; People v. Bank of Hudson, 6 Cow. 217. See, also, *post*, chap. 20.

[3] High on Extra. Leg. Rem., § 745; 3 Bl. Com. 263.

proceedings. In a case of *quo warranto* in New York, Chief Justice SAVAGE observes: "Whenever individuals or a corporation shall be found guilty either of usurping or intruding into any office or franchise, or of unlawfully holding it, judgment of ouster shall be rendered, and a fine may be imposed; but where the proceeding is against a corporation, and a conviction ensues for mis-user or non-user, or surrender, judgment of ouster and of dissolution shall be rendered, and it is equivalent to judgment of seizure at common law. If, therefore, the information in this case had for its object to oust the defendants from acting as a corporation and to test the fact of their incorporation, it should have been filed against individuals; if the object was to effect the dissolution of a corporation which had had an actual existence, or to oust such corporation of some franchise which it unlawfully exercised, then the information is correctly filed against the corporation." [1]

SEC. 423. **Nothing forfeited to the state but the franchise.** — Where there is a proper case for a judgment of forfeiture, and such judgment is entered, the rights and franchises of the corporation are remitted to the custody of the state. But it does not follow that the state is entitled to the property of the corporation. On the other hand, it has been held to be error to award it to the state.[2] And "the judgment of seizure does not of itself work a dissolution." [3]

[1] People v. Saratoga & Rensselaer R. Co., 15 Wend. 113. See, also, People v. Bartlett, 6 id. 422; Smith v. The State, 21 Ark. 294.

[2] State Bank v. The State, 1 Blackf. 267. In this case, HOLMAN, J., observed:

"There are but two grounds on which it can be contended that the corporate effects fall into the hands of the state; 1st, as a forfeiture for abusing the franchises, or 2d, for the want of an owner by the dissolution of the corporation. When we examine the first of these grounds we find nothing in the books to support the idea that the abuse of corporate franchises occasions a forfeiture of lands or goods, rights or credits, or, in fact, occasions any other forfeiture but the franchises themselves. The consequence of a breach of the implied condition on which their liberties were granted was not that they should forfeit their property or possessions if they abused their franchises, but only that they should forfeit their franchises. That which comes out of the hands of the king (or sovereign power) is the proper subject of forfeiture; the king, by the seizure, resuming what originally flowed from his bounty."

[3] High on Extra. Leg. Rem., § 577; 2 Kyd on Corp. 409.

CHAPTER XIX.

LIENS ON CORPORATE PROPERTY AND THEIR PRIORITY.

Sec. 424. Corporate mortgages and bonds secured thereby.
Sec. 425. Can the corporation by mortgage or trust deed give a lien on property to be thereafter acquired ?
Sec. 426. What may be conveyed by mortgage.
Sec. 427. Rolling stock, character and quality of.
Sec. 428. Id.
Sec. 429. Mechanics and constructers' liens.
Sec. 430. Id.
Sec. 431. Not assignable.
Sec. 432. Priority between mortgage and mechanics' liens.
Sec. 433. Id.
Sec. 434. Id.
Sec. 435. Id.

Sec. 424. **Corporate mortgages and bonds secured thereby.** — The statutes of various states provide that corporations, especially railroad corporations, may borrow money, and for that purpose may issue bonds and execute mortgages or deeds of trust to secure the same, and that said mortgages or deeds of trust may by their terms include and cover not only the property owned by them and *in esse* at the time of the execution of such mortgages or trust deeds, but subsequently-acquired property. Provision is also usually made by statute in reference to the recording of such instruments in order to give the mortgagees, or *cestui que trust*, liens on such property. The expedient of raising money in this way is frequently resorted to, in order to enable railroad companies to complete their undertakings, where their paid-up capital is not adequate for the purpose. The practice of issuing preferred stock in such cases amounts to about the same thing. The power in either case is liable to great abuse on the part of the managers of such corporations and has led to apprehensions of the most serious character.

Mr. Redfield suggests legislative action as a means of preventing the evils frequently resulting therefrom.[1] The right to mortgage its estate is incident to the right of a corporation to borrow money, therefore, where by the charter of a corporation, or by the general law, it is clothed with the power to borrow money to prosecute its business, it may, without any other or further legislation, mortgage its lands and property as security for its

[1] On this subject Mr. Redfield observes:

"In this country these mortgages have usually been so framed as to create successive liens, in the order of their being issued, as first, second, and third mortgage bonds. These are issued in large, general sums, subdivided to suit the wants of purchasers in the market, and when sold at par and above, are perhaps the most unobjectionable mode of completing an enterprise that otherwise must stop *in modo*. But when sold, as they commonly are, at reduced prices, in proportion to the waning fortunes of the company, they must of course destroy at once the credit of the stock and operate harshly upon its holders. This is not the place, nor are we disposed to read a homily upon the wisdom of legislative grants, or the moralities of moneyed speculations in stocks or on the exchange or elsewhere. But it would seem that legislation upon this subject should be conducted with sufficient deliberation and firmness so as not to invest such corporations with such unlimited powers as to operate as a net to catch the unwary, or as a gulf in which to bury out of sight the most disastrous results to private fortunes, which has justly rendered American investments, taken as a whole, a reproach, wherever the name has traveled. Experience will show that desperate enterprises require desperate means for their accomplishment, and will always find men for their management whose characters will conform more or less to the necessities of their position. And if by legislative restrictions they are precluded from the more obvious devices and expedients for the relief of their straightened fortunes, they will only be forced to the adoption of such as are more complex, less superficial and consequently the more likely to seduce capitalists into their investments.

"But even this is no apology for such unrestricted powers as are often given to these companies. And the mode in which such things are here carried through the legislature, by means of agents who have, where there are no rival interests, very much their own way, without even the necessity of subjecting their plans to any permanent board of supervision, who shall have such matters under control and devote such time to their study, as not to be misled by the devices of the interested; this mode of accomplishing such things sufficiently explains why, in this country, no restrictions are placed upon such companies.

"If some reliable estimate of the cost of such undertakings were obtained by means of a board of trade or railway commissioners, and no work allowed to go forward until a large proportion, or the whole of the requisite capital, were obtained by stock subscriptions, it would afford great security. And, if all mortgages, at whatever time given, were placed upon the same footing as to priority, it would give far less temptation to speculations in mere bubble investments, which is too much the case in this country. But there is perhaps no remedy for this incautious legislation in this country but the severe and hard discipline of that most painful, but surest teacher, experience. It is, we think, rather creditable to the promoters of railways in this country that with such unlimited powers as their charters confer they have been so little abused, and this in the main not by design or for private ends, but through inexperience and want of skill." 2 Redf. on Rail., § 234.

loans.[1] So it has been held that a power given in a charter "to sell and dispose of" its property clearly gives a power to mortgage,[2] and a power given to mortgage, for the purpose of building on its lands, gives authority to mortgage for materials and labor in erecting a building.[3] A power expressly given to a corporation to mortgage for one purpose does not abridge its general authority to mortgage for another, as for the security of its creditors.[4]

Sec. 425. **Can the corporation by mortgage or trust deed give a lien on property thereafter to be acquired ?—** The question whether a corporation can execute a mortgage that will be effectual as a lien on property not *in esse*, or on property thereafter acquired, has been the subject of controversy, but it seems now well settled that such liens attach under such circumstances at least under the provisions of statutes providing for such liens.[5] "A mortgage given

[1] Richards v. Merrimack, etc., R. R. Co., 44 N. H. 127; Susquehanna Bridge, etc., Co., v. General Ins. Co., 3 Md. 305; Bardstown, etc., R. R. Co. v. Metcalfe, 4 Metc. (Ky.) 199.

[2] Gordon v. Preston, 1 Watts, 385. In Leggett v. The N. J. Banking Co., 1 N. J. Eq. 541, the charter authorized the company to hold real estate necessary for the immediate accommodation of the corporation in its business, and to convey the same for its use, and it was held that this conferred upon the corporation authority to mortgage its estate for the use of the corporation, and that the question as to whether it was given in payment of a debt, or as security, either direct or collateral, was immaterial.

[3] Miller v. Chance, 3 Edw. Ch. (N. Y.) 399.

[4] Mobile, etc., R. R. Co. v. Talman, 15 Ala. 472; Allen v. Montgomery, etc., R. R. Co., 11 id. 437.

[5] In Willing v. Morris Canal & Banking Co., 4 N. J. Eq. 377, it was held where by virtue of a statute passed for such purposes, a mortgage of a canal was executed, in which the canal was described by its extreme termini, and all the accompanying works of the company, such as locks, aqueducts, bridges, privileges, etc., were included; *that the instrument conveyed the entire canal when completed, although a portion of it was constructed upon land acquired after the execution of the mortgage, and was built after the date of the mortgage*, and that the *feeder* of the canal passed as a part and parcel thereof. Pierce v. Emery, 32 N. H. 484; Coe v. Pennock, 14 Ohio (N. S.), 187; Pennock v. Coe, 23 How. (U. S.) 117; Dunham v. Cincinnati, etc., R. Co., 1 Wall. (U. S.) 254; Galveston R. Co. v. Cowdrey, 11 id. 483; United States v. New Orleans R. Co., 12 id. 362, Railroad Co. v. Soutter, 13 id. 517; Williamson v. New Albany, etc., R. Co., 1 Biss. 198; Coe v. Columbus, etc., 10 id. 372; How v. Freeman, 14 Gray, 566; State v. Northern R. Co., 18 Md. 193; Morrill v. Noyes, 56 Me. 458; Haven v. Emery, 33 N. H. 66; Seymour v. Canada, etc., R. Co., 25 Barb. 284; Stevens v. Buffalo & N. Y. R. Co., 31 id. 590; Buffalo & N. Y. R. Co. v. Lampson, 47 id. 533; Benjamin v. Elmira R. Co., 49 id. 441; Philadelphia, etc., R. Co. v. Wœlpper, 46 Penn. St. 369; Ludlow v. Hurd, 1 Dis. (Ohio) 552; Coe v. McBrown, 22 Ind. 252; Pierce v. Milwaukee, etc., R. Co., 24 Wis. 551; Jessup v. Bridge, 11 Iowa, 572; Dunham v. Isett, 15 id. 284. But generally mortgages do not cover after-acquired property. Bath v. Miller, 53 Me. 308. In Farmers'

on the entire property of a railway, including future receipts for transportation, with an agreement that property on the road subsequently acquired shall be bound, and a conveyance of it be duly executed, gives an equitable lien on property subsequently acquired to the holders of the bonds secured by the mortgage."[1] The question as to whether after-acquired property passes under a mortgage by a corporation of its corporate property depends entirely upon the circumstances *whether the property is so connected with the business of the corporation that it may be said to be a necessary incident thereof and attached thereto.* If so, it is treated as passing under a mortgage of the real and personal estate, otherwise not. Thus, in a Vermont case,[2] a first mortgage of a railroad company contained the following words as descriptive of the property conveyed: "And all other personal property belonging to said company, as the same now is in use by said company, or as the same may be hereafter changed or renewed by said company." It was held that these words did not embrace certain machinery for "burnetizing" ties and timber so as to render them more durable, it having appeared that such machinery was not in existence at the time of the mortgage, and took the place of nothing that was therein specified, but was constructed subsequent to its execution as an experiment.

In the conveyance of property acquired subsequently to this first mortgage, the following words of description were used: "All the articles of personal property acquired by the company since the date of the mortgage, consisting, among other things, of the following, to-wit," and then followed an enumeration, by name, of several engines, and by number of several different

Loan, etc., Co. v. Commercial Bank of Racine, 15 Wis. 424, it was held that a railroad mortgage for the purpose of raising money to complete the road, which contains no language purporting to convey materials acquired subsequently to its execution, does not acquire any validity as to such materials from its general nature and object.

[1] 2 Redf. on Rail., § 235.

[2] Brainerd v. Peck, 34 Vt. 496. Where an officer of a corporation purchases property with the money of the corporation, and takes the deed in the name of an individual director, the title vests in the corporation, although the transaction was done without the knowledge of the company or the grantee; and the property, upon the execution of the deed, becomes at once subject to any mortgage upon the general property of the corporation. Buffalo, N. Y. & Erie R. R. Co. v. Lampson, 47 Barb. 533.

kinds of cars. It was held that the general words were to be construed as referring to articles of the same nature and kind as those specifically named.

In a Massachusetts case,[1] a railroad corporation, empowered by law to mortgage their franchise and property, after making a mortgage of all their lands, franchises and privileges, and "all the locomotive engines, cars and other articles of personal property whatsoever, now owned or used by the corporation, or which they may hereafter own or use," authorized their directors to issue bonds to a large amount to pay debts contracted in building and furnishing their road, and to secure such bonds by "an additional or second mortgage of the road, franchise and property of every description, including cars and engines," subject to the first mortgage, and "as full and complete" as that. Bonds were issued pursuant to this authority, and a second mortgage made of all the lands, franchises, etc., of the corporation, "and the property and premises whatsoever mentioned, described, or referred to" in the first mortgage. It was held that the second mortgage, as against a subsequent attachment, conveyed engines and cars acquired by the corporation after the first and before the second mortgage.

In a later case in the same state,[2] the directors of a railroad corporation, authorized by vote of its stockholders "to execute a mortgage of the road with all its franchises," made a mortgage which recited this vote and in terms conveyed their road, houses, lands and superstructure, and all their locomotives, cars, tools and implements, "with all improvements made upon such property, and all additions thereto, by adding new locomotives, cars and other things;" and the legislature afterward ratified and confirmed their "proceedings, whereby they conveyed, agreeably to the vote of the stockholders, their railroad and property in mortgage." It was held that cars subsequently purchased by the corporation were included in the mortgage, although the mortgagees had not taken possession for foreclosure.

In a Wisconsin case,[3] a mortgage was executed of a "railroad

[1] Henshaw v. Bellows Falls Bank, 10 Gray, 568.

[2] Howe v. Freeman 14 Gray, 566.

[3] Farmers' Loan, etc., Co. v. Commercial Bank, 11 Wis. 207.

with its superstructure, track and all other appurtenances *made or to be made, together with its furniture, materials and every other kind of personal property which should be used for operating said road;* and it was held that property thereafter acquired by the company did not pass by the mortgage, *except so far as it should become appurtenant to, or be used in operating the road*, and therefore that *chairs* subsequently acquired, but never used, did not pass under the mortgage. A similar rule was adopted in Maine,[1] and in a case where a railroad corporation by virtue of a special act of the legislature mortgaged not only all the property then owned by both the new and old portions of the road, but "all the property of said extension subsequently to be acquired," it was held that wood subsequently purchased with the earnings and for the use of the whole road would not pass by said mortgage, and was attachable.

These cases illustrate the doctrine stated sufficiently, and no difficulty, with the rule stated in view, will be experienced in determining, in a given case, whether after-acquired property is covered by a mortgage or not.

SEC. 426. **What may be conveyed by mortgage.** — It was formerly a mooted question whether, in the absence of statutory provisions expressly authorizing it, a corporation could assign or convey by mortgage or otherwise its franchises.[2] But it is now a common provision of the statutes that franchises, as well as all other kinds of property and interests, may be mortgaged by railroad corporations, and in such cases at least the franchises may be conveyed by mortgage as security.[3] And, independent of any statutory provision, there can be no doubt that a mortgage of all the corporate property, under competent authority, *carries with it, as a necessary incident, all its franchises so far as necessary to make*

[1] City of Bath v. Miller, 53 Me. 308.

[2] 2 Redf. on Rail., § 235, 12, note 22; Wheelock v. Moulton, 15 Vt. 519; Isham v. Bennington Iron Co., 19 id. 230; Winch v. Railway Co., 5 De G. & S. 562; S. C., 13 E. L. & E. 506; S. Y. R. Co. v. Great N. R. Co., 3 De G., M. & G. 576; S. C., 19 E. L. & E. 513; Beman v. Rufford, 1 Sim. (N. S.) 550; S. C., 6 Eng. L. & Eq. 106; The S. & B. R. Co. v. The L. & N. W. R. Co., 4 De G., M. & G. 115; Troy, etc., R. Co. v. Kerr, 11 Barb. 581; State v. Rives, 3 Ired. 297; Coe v. McBrown, 22 Ind. 252; Pennock v. Coe, 23 How. (U. S.) 117.

[3] First Mort. Bondholders v. Maysville & L. R. Co., 9 Am. L. Times, No. 31; cited 2 Redf. on Rail., § 235, 14, note 26. See, also, Pierce v. Emory, 32 N. H. 484, Phillips v. Winslow, 18 B. Monr. 430.

the property available;[1] as, in the language of the court in the case first cited in the last note, "an authority to mortgage a railroad and its property must design a transfer of the right to operate the road," as otherwise the property would be unavailable and useless in the hands of the mortgagees, and when it came into their possession they would find that the security they had obtained for their money was a myth. The law does not contemplate any such result, and the courts would not for a moment give countenance, upon any technical grounds, to any such device for cheating *bona fide* creditors under the mortgage. Strictly speaking, at the common law, a railroad or other corporation has no authority to mortgage its franchises;[2] and in one case[3] it has been held that authority conferred by the charter of a corporation to mortgage "its road, income *and other property*" does not authorize a mortgage of its franchise. In another case in the United States circuit court arising in New Hampshire,[4] the court say: "Among the franchises of a corporation is that of being a body politic, with rights of succession of members, and of acquiring, holding and conveying property, and suing and being sued by a certain name. Such an artificial being only the law can create, and when created it cannot transfer its own existence into another body, nor can it enable natural persons to act in its name, save as its agents, or as members of the corporation, acting in conformity with the modes required or allowed by its charter.

[1] Bardstown, etc., R. R. Co. v. Metcalfe, 4 Metc. 199. In Eldridge v. Smith, 34 Vt. 484, it was held that a mortgage by a railroad company of its road and franchises as security for a debt does not convey its corporate existence or its general corporate powers, but only the franchise necessary to make the conveyance beneficial to the grantees, and to maintain and manage the railroad and receive the profits thereof for their own benefit. This doctrine was also adopted in an Illinois case, Palmer v. Forbes, 23 Ill. 300, where it was held that the mortgage of a railroad company under legislative authority necessarily carries with it authority, on the part of the trustees, to exercise the franchise of the road to satisfy the mortgage and for the public benefit, either in their own or any other name; and consequently that when the mortgagees take possession of the road under their mortgage, the personal property then left thereon cannot be taken by a creditor of the corporation upon a judgment against the corporation.

[2] Comm. v. Smith, 10 Allen, 448. In Steiner's Appeal, 27 Penn. St. 313, a canal company was held not to have authority without the consent of the legislature to mortgage either its tolls or such real estate as is necessary for the enjoyment of its franchises.

[3] Pullam v. Cincinnati, etc., R. R. Co., 4 Biss. 35.

[4] Hall v. Sullivan R. R. Co., 11 Law Reporter (N. S.), 138.

The franchise to be a corporation is, therefore, not a subject of sale and transfer, unless the law by some positive provision has made it so, and pointed out the modes in which such sale and transfer may be effected. But the franchise to build, own and manage a railroad, and to take tolls thereon, are not necessarily corporate rights; they are capable of existing in and being enjoyed by natural persons, and there is nothing in their nature inconsistent with their being assignable. Whether when they have been granted to a corporation created for the purpose of holding and using them, they may legally be mortgaged by such corporation, in order to obtain means to carry out the purpose of its existence, *must depend upon the terms upon which they are granted; or, in the absence of any thing special in the grant itself, upon the intention of the legislature to be deduced from the general purposes it had in view, the means it intended to have employed to execute those purposes, and the course of legislation on the same or similar subjects;* or, as it is sometimes compendiously expressed, upon the public policy of the state."

This seems to us to embody the true rule in relation to this question, to-wit, that the question whether or not under authority conferred by statute upon a corporation to mortgage its property authority to mortgage its franchises is conferred depends upon the evident intention of the legislature to be gathered from the language of the statute, and the nature and character of the corporate property and purposes, and that such a right may be implied, where, under such rule, such was the intention of the legislature. In *Jesup* v. *Bridge*, LOWE, C. J., observes: "As a matter of fact, it is well known that railroads are built with capital. To obtain this, companies are compelled to conform to the laws and customs which regulate its use. They are dependent, in a great measure, upon the negotiation of their bonds for the means, carrying forward their enterprises. These bonds can only be negotiated by indemnifying, as best they can, the creditors for the principal debt, and secure the periodical payment of the accruing interest. For this purpose and as a means to an end, it becomes essential frequently for the company to mortgage all its property and franchises, and

even the future earnings after paying the necessary operating expenses." [1]

Sec. 427. **Rolling stock — character and quality of.** — It may be appropriate to notice the controversy which has occurred in reference to the character and nature of that property, necessary to the operation of railroads, and usually denominated "rolling stock." This term embraces all the carriages, cars, engines and other vehicles, that move on wheels on railroad tracks. Is such property personal or real? Does it pass by a conveyance of the real estate? May it be sold and transferred as real property? Do the recording laws relating to real, or personal property, apply to it? Various decisions have been given in the various states on these questions. It has been, in many cases, both in the federal and state courts, a perplexing question, and of great interest to parties; and their remedy frequently turns upon the solution of it. The legislation of many of the states has settled the question and determined its character in this respect by statutory provisions.[2] But in others it is an open one, and the subject of controversy. In New Hampshire, in the absence of any statutory provisions on the subject, it has been held not to be a fixture or belong to the real estate; and this seems to be the doctrine in Massachusetts, Maryland, Wisconsin and Missouri.[3] But a contrary or some-

[1] 11 Iowa, 573.

[2] Rolling stock is made personal property by a constitutional provision in Illinois. See Const. Ill., art. 11, § 10. The statutes of Neb. (1873) 197, provide, that "any mortgage or deed of trust made upon the lands, roads, or other property of any railroad company, shall bind all the property mentioned in such deed or mortgage, including rolling stock, and that to secure the rights of mortgages and parties interested under deeds of trust, the rolling stock, personal property and material necessary for operating the road, belonging to the road and appertaining thereto, shall be deemed a part of the road, and said mortgages and deeds, when recorded, shall have the same effect both as to notice and otherwise, as to the real estate conveyed by them."

In Vermont, also, there is a statutory regulation on the subject. Vt. Gen. Stat. (1863) 237, §§ 101, 102; Miller v. Rutland, etc., R. Co., 36 Vt. 452.

[3] Boston, etc., R. Co. v. Gilmore, 37 N. H. 410; Pierce v. Emory, 32 id. 485; Howe v. Freeman, 14 Gray, 566; McKim v. Mason, 3 Md. Ch. 201; Wells & Miller v. Canton Co., 3 Md. 231; Denmead v. Bank of Balt., 9 id. 179; Coe v. Columbus Piqua, etc., R. Co., 10 Ohio St. 372; Ludlow v. Hurd, 1 Dis. (O.) 552; Pacific R. Co. v. Cass Co., 53 Mo. 17; Hill v. Lacrosse, etc., R. Co., 16 Wis. 214.

As to the construction of the present statutes of Wisconsin on this question, see Chicago, etc., R. Co. v. Borough of Fort Howard, 21 Wis. 44.

what qualified doctrine has been adopted in various other states.[1] In a recent case in New York, Commissioner JOHNSON, in reviewing the decisions on this question in that state, observes: "The first question necessarily to be decided in this case is, whether the rolling stock of a railroad is personal property, or whether it is to be deemed constructively annexed to the road upon which it runs, so as in law to be regarded as a part of the realty. If it be determined that rolling stock retains its character of personal property, then the question arises whether a mortgage of a railroad and its equipment needs to be filed under the statute of 1833, requiring mortgages of personal property to be filed when the possession of the property is not immediately delivered to the mortgagee.[2] * * * The questions thus presented are not authoritatively determined in this state. The opinion of the supreme court has been given in four reported cases. The earliest was that of *The Farmers' Loan & Trust Co.* v. *Hendrickson*, 25 Barb. 484, in which the judgment rendered in October, 1857, by Justices S. B. STRONG, BIRDSEYE, and DAVIES, declared that as between the mortgagees and judgment creditors, the rolling stock was to be deemed fixtures, and, consequently, that such a mortgage did not need to be filed under the act of 1833. In this case the mortgage specified engines, tenders, cars, etc., as a part of the property mortgaged, and the rights of the plaintiffs might have been sustained by holding either that the chattel mortgage law did not apply to railroad mortgages, or that the engine and cars were fixtures. The court rejected the former ground, and placed the decision on the position that the rolling stock was part of the realty.[3] * * * Looking now at the

[1] Covey v. Pittsburg, etc., R. Co., 3 Phila. 173; Ammant v. New Alexandria, etc., R. Co., 13 S. & R. 210; Applegate v. Ernest, 3 Bush, 649; Winchester T. Co. v. Vimonnt, 5 B. Monr. 2; Palmer v. Forbes, 23 Ill. 301; Hunt v. Bullock, id. 320; Titus v. Mabee, 25 id. 257; Titus v. Ginheimer, 27 id. 462. But these decisions in Illinois were, before the constitution was adopted fixing the character of rolling stock as personal property, alone referred to. In Indiana rolling stock is treated as realty for the purposes of taxation. Louisville, etc., R. Co. v. State, 25 Ind. 177.

[2] Laws 1833, chap. 279, p. 402.

[3] The learned judge proceeds to refer to numerous cases in that state, viz.: Beardsley v. Ontario Bank, 31 Barb. 619; Hoyle v. Plattsburgh, etc., Co. (same as now under consideration), 51 Barb. 45; Murdock v. Gifford, 18 N. Y. 30; Mott v. Palmer, 1 id 564; Leroy v. Platt, 4 Paige, 77; as well as Pierce v. Emery, 32 N. H. 484; and Pennock v. Coe, 23 How. (U. S.) 117.

rolling stock of a railroad, it is originally personal in its character, it is subservient to a mere personal trade, the transportation of freight and passengers. The track exists for the use of the cars rather than the cars for the use of the track. There is no annexation, no immobility from weight, there is no localization in use. The only element on which an argument can be based to support the character of realty is adaptation to use, with and upon the track. Even in respect to this, were the same contrivances adopted by a tenant for the use in his trade upon leased lands, his right to remove both cars and track would be beyond question. It is perhaps fortunate that this question was not finally adjudicated in the early days of railroad enterprise, for then unity of ownership in track and cars and independence of roads of each other seemed to render it possible to consider rolling stock part of the realty without introducing great inconvenience. At the present time independent companies exist owning no tracks, whose trains run through state after state on the railroad track of other companies. It is no uncommon sight to see the cars of half a dozen companies formed into a single train and running from New York to Illinois and Missouri. It is impossible to deal with such property as a part of the realty without introducing anomalies and uncertainties of the gravest character."[1]

Sec. 428. The opinions of the supreme court of the United States have left this question in a state of uncertainty.[2] In *Minnesota Company* v. *St. Paul Company*,[3] Nelson, J., says: "We

[1] Hoyle v. Pittsburg, etc., R. Co., 54 N. Y. 314. See, also, Benjamin v. Elmira, etc., R. Co., id. 675.

[2] See Farmers' Loan, etc., Co. v. St. Joseph, etc., R. Co. (U. S.C.C. Kansas, June Term, 1875, not reported.)

[3] 2 Wall. 609. See, also, Railroad Co. v. James, 6 Wall. 750. But see, also, Pullan v. Cincinnati, etc., R. Co., 4 Biss. 35; Galveston R. Co. v. Cowdrey, 11 Wall. 450; United States v. New Orleans, etc., R. Co., 12 id. 362.

Previous to the decision of the court of appeals of New York, in Hoyle v. Plattsburgh, etc., R. Co., *supra*, the supreme court of that state, in the case of The Farmers' Loan and Trust Company v. Hendrickson, 25 Barb. 484, had held that the rolling stock of a railway was accessory to real estate, and would pass by a deed of mortgage of the railway, and that such a mortgage need not be filed as a chattel mortgage, under the recording laws of the state. In this case Mr. Justice Strong observed:

"The property of a railroad company consists mainly of the road-bed, the rails upon it, the depot erections and the rolling stock, and the franchise to hold and use them. The road-bed, the rails fastened to it, and the buildings at the depots are clearly real property. That the locomotives and passenger, baggage and freight cars are a part and a necessary part of the

agree that the rolling stock upon this road is covered by the several mortgages, and as respects any other valid liens upon the

entire establishment there can be no doubt. Are they so permanently and inseparably connected with the more substantial realty as to become constructively fixtures?

"Railways being a modern invention and of a novel character, we have no decisions upon this question, and those relating to and governing old and familiar subjects do not absolutely control us, although we must necessarily resort to them as guides. Judge WESTON well remarks, in Farrar v. Stockpole, 6 Greenl. 157, that modern times have been fruitful of inventions and improvements for the more secure and comfortable use of buildings, as well as of many other things which administer to the enjoyment of life. Venetian blinds, which admit the air and exclude the sun, whenever it is desirable so to do, are of modern use; so are lightning rods, which have now become common in this country and in Europe. Those might be removed from buildings without damage; yet, as suited and adapted to the buildings upon which they are placed, and as incident thereto, they are doubtless part of the inheritance, and would pass by a deed as appertaining thereto. The general principles of the law must be applied to new kinds of property, as they spring into existence in the progress of society, according to their nature and incidents, and the common sense of the community. It may be that if an appeal should be made to the common sense of the community, the term 'fixtures' could not well be applied to such movable carriages as railway cars. But such cars move no more rapidly than do pigeons from a dovecote, or fish in a pond, both of which are annexed to the realty. Judge COWEN admits, in Walker v. Sherman, that a machine, movable in itself, may become a fixture, from being connected in its operations by boards, or in any other way, with the permanent machinery. It results from many cases that it is not absolutely necessary that things should be stationary in any one place or position, in order that they should be technically deemed fixtures. The movable quality of these cars has frequently, if not generally, induced the opinion that they are personal property. Hence, railway mortgages of rolling stock have, as I understand, been generally filed in the offices of the clerks of all the towns through which the roads pass. That was undoubtedly the more prudent course, as it saved any question as to the character of the property. Even the learned counsel has gone no further than to denominate the cars '*quasi*' fixtures. Public opinion, however, although respectable in matters of fact, is an unsafe guide as to legal distinctions.

"That railway cars are a necessary part of the entire establishment, without which it would be inoperative and valueless, there can, of course, be no doubt. Their wheels are fitted to the rails, they are constantly upon the rails, and except in cases of accidents, or when taken off for repairs, nowhere else; they are not moved off the land belonging to the company. [This claim is not justified by the facts in modern times. See opinion of JOHNSON, J., in Hoyle v. Plattsburgh, etc., R. Co., *supra*.] They are peculiarly adapted to the use of the railway, and in fact cannot be applied to any other purpose, they are not like farming utensils, and possibly the machinery in factories and many of the movable appliances in stores and dwellings, the object of general trade; they are permanently used on the particular road where they are employed, and are seldom, if ever, changed to any other. Many of these are strong characteristics of the realty; some of them have often been deemed conclusive. * * * If railroad cars were used in any other place than upon the lands belonging to the company, or for any other purpose than in the execution of its business, or were constructed in such shape and so extensively as to become objects of general trade, or were not a necessary part of the entire establishment, I might consider myself as compelled by the weight of authority to decide, that as they are not physically annexed to what is usually denomi-

same, is inseparably connected with the road; in other words, is in technical language a fixture of the road, so far as in its nature and use it can be called a fixture."

Sec. 429. **Mechanics' and constructors' liens.** — It has been a common provision of the statutes of many if not most the states that mechanics, laborers and the furnisher of materials might secure a lien upon the building, erection or improvement upon which the labor was bestowed or for which the material was furnished, and the land on which the erection or improvement is located, for the labor done or material furnished upon complying with certain provisions of the statute in relation thereto.

Sec. 430. The legislature of various states have extended these liens, and by express provisions of statutes, they embrace the work and labor done, and material furnished on or about any work of internal improvement, including the construction of railroads, and give to the laborer or furnisher of material on such works the same remedy formerly limited to buildings and other improvements of private individuals. The general principles and doctrines of the courts in the interpretation of such statutes and their application, relating to natural persons, would be equally applicable to corporations. These must necessarily depend upon

nated real estate, they must be deemed personal property; but as each and all of these characteristics or incidents are wanting, the considerations which I have mentioned, or to which I have alluded, leading to an opposite conclusion, require us to determine that they are included as fixtures or necessary incidents in a conveyance of real estate. In thus deciding we shall unquestionably carry out the intention of the parties, as it could not have been the design of such parties — certainly not of the mortgagees — that the security should be diminished by the wear and tear of the machinery, and the inevitable accidents to which it is subjected. Possibly the substituted machinery might not be included in the mortgage, if it should be deemed personal property, and few, if any, would be willing to loan their money upon such an uncertainty, but it would be otherwise if the additions should be considered as made to the real estate." See, also, same doctrine in Palmer v. Forbes, 23 Ill. 300; Hunt v. Bullock, id. 320; Pennock v. Coe, 23 How. 117.

The reasoning of the learned judge in this case is based upon certain facts. But the facts themselves cannot be assumed to be correct, as shown by the court in the subsequent case in the court of appeals in the same state. See Hoyle v. Plattsburgh, etc., R. Co., *supra*.

the language and provisions of the statutes, and hence no general rules can be laid down as applicable to cases generally.[1]

SEC. 431. **Not assignable.** — A carrier's lien, like all other liens arising by operation of law, applies only to the goods transported, and is not assignable unless made so by a well-established usage, or by statute. The right is a personal one, and does not pass by an assignment or a sale or pledge of the goods, and cannot be set up by any other person as against the true owners.[1]

SEC. 432. **Priority between mortgage and mechanics' liens.** — Controversies have recently arisen between mortgagees and the laborers, contractors and builders of railroads, in reference to the priority of their respective liens. The question must depend upon the language and construction of the provisions of the statutes in reference to such liens.

[1] A provision of statute of Iowa will, perhaps, indicate the general scope and purpose of such statutes. It is as follows: "Every mechanic, or other person who shall do any labor upon or furnish any materials, machinery or fixtures for any building, erection or other improvement upon land, including those engaged in the construction or repair of any work of internal improvement by virtue of any contract with the owner, his agent, trustee, contractor or sub-contractor, upon complying with the provisions of this chapter, shall have for his labor done or materials, machinery or fixtures furnished, a lien upon such building, erection or improvement, and upon the land belonging to such owner on which the same is situated, to secure the payment of such labor done or materials, machinery or fixtures furnished." Iowa Code (1873), chap. 14, § 2130.

It is provided by other sections for the filing of such liens with the clerk of the district court of the county, and giving notice of the same. It is further provided in reference to the priority of such liens as follows:

"The liens for labor done or things furnished shall have priority in the order of the filing of the accounts thereof as aforesaid, and shall be preferred to all other liens and incumbrances which may be attached to or upon such buildings, erection or other improvement, and to the land on which the same is situated, or either of them, made subsequent to the commencement of said building, erection or other improvement." Id., § 2139.

"The lien for the thing aforesaid, or work, shall attach to the buildings, erections or improvements for which they were furnished or done, in preference to any prior lien or incumbrance, or mortgage, upon the land upon which the same is erected or put, and any person enforcing such lien may have such buildings, erections or other improvements for which they were furnished or done in preference to any prior lien, or incumbrance, or mortgage upon the land upon which the same is erected or put, and any person enforcing such lien may have such building, erection or other improvement sold under execution, and the purchaser may remove the same within a reasonable time thereafter." Id., § 2141.

[1] Everett v. Saltus, 15 Wend. 474; Ames v. Palmer, 42 Me. 197.

Sec. 433. The statutes of Iowa provide in reference to railroad mortgages and trust deeds, that "said mortgages or deeds of trust may, by their terms, include and cover not only the property of the corporation making them at the time of their date, but property, both real and personal, which may thereafter be acquired, and shall be as valid and effectual for that purpose as if the property were in possession at the time of the execution thereof." And in reference to the liens of parties "who shall do any labor or furnish any materials, machinery or fixtures for any building, erection or other improvement upon land, including those engaged in the construction or repair of any work of internal improvement," that "the lien for the things aforesaid, or work, shall attach to the building, erections or improvements for which they were furnished or done, in preference to any prior lien or incumbrance or mortgage upon the land upon which the same is erected or put, and any person enforcing such lien may have such building, erection or other improvement sold under execution, and the purchaser may remove the same within a reasonable time thereafter;" that "the liens for labor done or things furnished shall have priority in the order of the filing of the accounts thereof as aforesaid, and shall be preferred to all other liens and incumbrances which may be attached to or upon such building, erection or other improvement, and to the land on which the same is situated, or either of them, made subsequent to the commencement of said building, erection or other improvement." Under these provisions it has been held that the mechanic's, laborer's or furnisher's lien, dates from the commencement of the structure, and is paramount to a mortgage executed after the commencement of the same, though before the particular work was done or materials furnished for which the lien is claimed.[1]

[1] Iowa Code (1873), §§ 2131, 2132–2139, 2140, 2141; Nelson *et al.* v. The Iowa Eastern R. Co., defendant and others, intervenors, West Jur., V. 10, No. 10, p. 604 (to be reported in 44 Iowa).

In this case Nelson and others claimed of the railroad company $2,180.82 on account of ties furnished the company for the construction of its road, and asked that a lien therefor might be established under the statutes of Iowa. The intervenors alleged that they were the holders of bonds of the company secured by a mortgage upon the road, and entitled to priority by virtue of such mortgage over the lien of the plaintiffs. The court gave judgment for the claim against the company subject to the lien of the intervenors. On appeal to the supreme court of that state, Adams, J., delivering the opinion, observed as follows:

SEC. 434. The same doctrine was held in construing a similar statute in Montana, which provided: "The liens for work and labor done or things furnished, as specified in this act, shall have

"It is claimed by the plaintiffs that the intervenors' mortgage was executed after the commencement of the improvement. It is claimed by the intervenors that it was executed before. The fact is, the mortgage was executed after the road was commenced, but before the ties were furnished. We have only to determine then what is the 'improvement' within the meaning of the statute. If it is the road, the mechanics' lien has priority. If it is the ties, the mortgage has priority. * * * * The idea that the mechanics' lien attaches only from the commencement of the particular work is wrought out through the supposition that the word 'improvements,' as used in the statute, denotes the several distinct and successive jobs of work performed by the different mechanics. But this construction is precluded by the use of the word 'other' before 'improvements.' The lien is to attach from the commencement of 'the building, erection or other improvements.' The statute implies that a building is an improvement and that there may be others still. We understand by 'other improvements,' the results of mechanical labor or materials furnished other than buildings or erections upon real estate. But suppose 'other improvements' to mean the different parts of a building. It follows that a building is one improvement, its walls another, and its doors a third. But the walls of a building are not other than the building. The words 'other improvement,' as used in the statute, cannot properly mean either buildings, erections or constituent parts thereof.

"Besides a constituent part of a thing is not an improvement of a thing, in any proper sense of the word. How can we say that the walls of a house are an improvement of the house? The house could have no antecedent existence. Ties and rails are not an improvement of a railroad for the same reason. Yet whatever is an improvement is an improvement of something. A house is an improvement of the premises on which it is situated. A railroad is an improvement of the country which is benefited thereby. That which enters into the original construction of a house or railroad is a part of an improvement and nothing more. * * * But it is said that it would be unjust to the mortgagee who has taken a mortgage upon a partially constructed building, erection or other improvement, to make his mortgage subject to mechanics' liens for work subsequently commenced. It is argued that the mechanic may always know what incumbrances rest upon the property by mortgage, but that the mortgagee cannot know what incumbrances may come to rest upon the property by mechanics' liens. To this, it may be said that where a person takes a mortgage upon a partially constructed building, erection, or other improvement, the possibility of mechanics' liens attaching upon the property is distinctly foreshadowed by the condition of the property. It is true, the mortgagee cannot know the amount. He cannot know, indeed, at the time the mortgage is executed, whether the building, erection, or other improvement, will be completed by the mortgagor. But we think that the mortgagee may properly be required to rely upon the good faith and prudence of the person whom he elects to make his mortgagor. Furthermore, the increased value of the security may be presumed to be somewhat in proportion to the expense incurred upon the property. Without denying that the statute, as we construe it, may sometimes work a hardship, the danger to be apprehended is not such as to exert much influence in the construction of the statute, the language employed being almost, if not entirely, free from ambiguity. Another objection urged against this construction of the statute is, that it may be impracticable oftentimes for the mortgagee to determine whether a building, erection, or other improvement, has or has not been commenced upon the premises. It has been asked in argument, whether a mortgagee of a railroad shall

priority in the order of filing the accounts thereof, as aforesaid, and shall be prior to all other liens and incumbrances which may be attached to or upon the building, erection or other improvement, and to the land upon which the same is situated, to the extent aforesaid, or either of them, made subsequent to the commencement of said building, erection or other improvement."

In construing this statute the supreme court of the United States (per Bradley, J.) observe: "The liens secured to the mechanics and material men have precedence over all other incumbrances put upon the property after the commencement of the building. And this is just. Why should a purchaser or lender have the benefit of the labor or materials which go into the property and give it its existence and value? At all events, the law is clear." [1] The

take notice that the construction of the road has been commenced if only a shovelful of dirt has been thrown.

"This objection, whether great or small, applies equally to the construction contended for by the intervenors. If the statute should not be construed as requiring notice to be taken of the commencement of a railroad, because that may consist in the throwing of a shovelful of dirt, it should not, for the same reason, be understood as requiring that notice should be taken of the commencement of any particular job of work upon the railroad, for that, too, must be equally small. It is further objected, that a building, erection, or other improvement, when partially constructed, is sometimes abandoned and the work is afterward resumed. If, in the mean time, a mortgage has been executed upon the premises, the mortgagee having no reason to suppose that the work would be resumed, he might, it is said, be virtually deprived of his security without any fault or negligence on his part. What should be the rule in such a case it is not proper for us now to determine. It is sufficient for us to say that we do not think that such a case would involve any great difficulty. If a partially erected structure is in a condition to be completed, we doubt whether the mortgagee would be justified in presuming that a cessation of the work, however long continued, was an absolute abandonment.

"In regard to the policy of the statute, as we construe it, this may be said: It is not desirable that the execution of a mortgage upon the land, upon which a building or other improvement is in process of construction, should arrest the work and prevent its completion. Both mortgagor and mortgagee are interested in its completion. Without it, the money already expended must ordinarily to a great extent be lost. Take the present case as an illustration. The intervenors are holders of mortgage bonds upon a road, sixteen miles of which had been graded at the time the mortgage was made. The value of their security depended upon the further construction of the road; they foresaw that work and materials must be furnished by somebody, or nothing could be realized from what had been done. Yet, the construction of the statute they contended for would require the mortgagor to keep a fund on hand for the daily payment of the laborers and material men, or that the work and material should be practically furnished without security."

[1] Davis v. Bilsland, 18 Wall. 659. See, also, Dubois v. Wilson, 21 Mo. 214; American Fire Ins. Co. v. Pringle, 2 S. & R. 138; Wells v. Canton Co., 3 Md. 234; Getchell v. Allen, 34 Iowa, 559, where it is observed by Beck, J., that "the word 'improvement,' as here used, does not mean an addition to or betterment of a building, but is applied to some independent erection on the land."

same question was recently presented to the United States circuit court for the district of Iowa, where the controversy was between the mortgagees of a railway company and the builders, laborers and material men, as to the priority of their respective liens under the Iowa statute; and where it was held that the liens of the latter, following the decisions of the state court, dated from the commencement of the building of the railway and not from the time when the particular work was done or the material furnished.[1]

[1] Taylor *et al.*, Trustees, v. The Burlington C. R. R. & M. Co., West. Jur., vol. 11, No. 6, p. 336 (May Term, 1877).

In this case, DILLON, J., observes: "The trustees in these mortgages resist the right to any lien whatever in many cases [then pending in the court involving the same question] and particularly resist the establishment of a mechanics' lien in any case where the labor was done or the materials were furnished after the recording of the mortgage, which shall have priority over the mortgage. There are also questions as to the lien for repairs after the road has been completed as distinguished from the right to a lien for original construction; and questions also as to limitation of the lien of the mechanic. * * * The mechanics' lien statute (Code, §§ 2130–2132) extends *inter alia* to all persons 'who construct or repair any work of internal improvement,' including railways, and gives a lien 'for labor done or materials, machinery or fixtures furnished' upon 'such building, erection or improvement, and upon the land belonging to the owner on which the same is situated.' * * * * * Section 2139 first provides for the priority of mechanics' liens as among themselves, making the same depend upon the order of filing, and then proceeds to enact that such liens 'shall be preferred to all other liens and incumbrances which may be attached to or upon such building, erection or other improvement and to the land on which the same is situated, or either of them, made subsequent to the commencement of said building, erection or improvement.' The lien extends to the entire land to the extent of the interest of the person for whom the mechanic did the work or furnished the materials, and to a leasehold interest, as to which the provision is that the forfeiture of the lease shall not impair the mechanics' lien as to the buildings, but the same may be sold to satisfy the lien and be moved off within thirty days after the sale (§ 2140)

"Section 2141 provides for still another case, in these words: 'The lien for the things aforesaid, or work, shall attach to the buildings, erection, or improvements for which they were furnished or done, in preference to any prior lien, or incumbrance, or mortgage upon the land upon which the same is erected or put, and any person, enforcing such lien, may have such building, erection or other improvement sold under execution, and the purchaser may remove the same within a reasonable time thereafter.' (§ 2510.) We hold as follows: 1. Section 2139 contemplates and provides for a case where at the time of the commencement of the building or railway, there is no recorded lien or incumbrance thereon, and where such lien or incumbrance is created subsequent to the commencement of the building of the railway; in which case the mechanic has a lien which relates back to the commencement of the building or railway, although the particular work of that mechanic was done or his materials were furnished after a mortgage was recorded or lien created."

In Ohio & Miss. R. Co. v. Davis, 23 Ind. 553, the supreme court of Indiana held, in reference to the appointment of a receiver, that it did not operate to derange the priority of legal or equitable liens; that money or prop-

Sec. 435. These decisions relate to the construction of local statutes. But as the statutes of various states have similar provisions, we have deemed it a matter of sufficient interest to refer to the decisions where the statutes have been construed, and to set forth the reasoning and determination of the courts, both state and national, in relation thereto.

erty in his hands was in the custody of the law, and that he held it for whoever was entitled to it; that where there are various mortgagees, if prior mortgagees do not assume possession of the property or take steps to foreclose their mortgages, any subsequent incumbrancer may have a receiver appointed to take the rents and profits for his benefit, until those who have a prior right claim them by some proceeding for that purpose; but that a subsequent incumbrancer who has received rents and profits will not be compelled to refund to a prior incumbrancer who subsequently takes possession or brings suit.

CHAPTER XX.

DISSOLUTION.

SEC. 436. Cause for which corporations may be dissolved or which constitute a dissolution.
SEC. 437. Reserved power in the legislature to dissolve.
SEC. 438. Id.
SEC. 439. Where the reserved power is subject to a condition.
SEC. 440. Expiration of the time limited for its continuance.
SEC. 441. Neglect or abuse of powers.
SEC. 442. Id.
SEC. 443. Mode of proceeding in such cases.
SEC. 444. Id.
SEC. 445. Dissolution by the voluntary act of members.
SEC. 446. When the majority may surrender the franchise.
SEC. 447. Dissolution under statutes providing for the winding-up of corporations.
SEC. 448. Id.
SEC. 449. Dissolution by the death of all the members.
SEC. 450. Effect of dissolution generally at common law.
SEC. 451. Effect of dissolution upon creditors.
SEC. 452. Forfeiture, not the subject of collateral inquiry.
SEC. 453. When corporate existence may be inquired into, collaterally.

SEC. 436. **Causes for which corporations may be dissolved, or which constitute a dissolution.** — There are various modes in which moneyed corporations may be dissolved, and various causes for such dissolution. They may be dissolved: 1. By virtue of a power reserved in the legislature, by the act or general law, by or under which they were created, or by other general laws or constitutional provisions. 2. By expiration of the time limited for their continuance, either by the special or general statutes, by or under which they were created. 3. For neglect or abuse of their franchises. 4. By the voluntary acts of the members. 5. By proceedings under statutes relating to dissolution and the winding-up of the affairs of the corporation.

SEC. 437. **Reserved power in the legislature to dissolve.** — The power of parliament, according to the British constitution, being omnipotent, it could dissolve any public or private corporation. The power could be exercised in an arbitrary manner, but it has, "to

the honor of the British nation," seldom been exercised. And those instances of arbitrary exercise of it have been characterized by Lord THURLOW as "an atrocious violation of private property, which cut every Englishman to the bone." But in this country, although the power of our legislatures in the various states is, unless restrained by our written constitutions, as omnipotent as the parliament of Great Britain, yet in respect to repealing or amending charters, they are restrained at least by that provision of the federal constitution, which prohibits any state law, impairing the obligation of contracts.[1] The doctrine, as we have seen in this country, is, that the provisions of a charter or of general statutes providing for incorporation, when once accepted by the corporators, becomes a contract between the state and them, and the state cannot violate this contract or in any manner change or avoid it by legislative action, without the consent of the corporators.[2]

But this doctrine has no application where the right to resume, alter or amend the franchises or charter conferred upon a corporation was contained in the special or general statutes under which it was constituted, or in the constitution or general laws of the state, at the time of its creation. And where such a power exists in any of these ways, the legislature in its discretion, and by virtue of its paramount authority, may exercise it in respect to any of the reserved powers, and such use of its powers will not violate the original contract.[3]

[1] Const. U. S , art. 1, § 10.

[2] See *ante*, §§ 35, 36; Dartmouth College v. Woodward, 4 Wheat. 518; 2 Kent's Com. 305 *et seq.*; Green v. Bidde, 8 Wheat, 1; Fletcher v. Peck, 6 Cranch, 88; State v. Wilson, 7 id. 164; Terret v. Taylor, 9 id. 43; Town of Pawlett v. Clark, id. 292; Brooklyn C. R. Co. v. Brooklyn City R. Co., 32 Barb. 358, McLaren v. Pennington, 1 Paige, 107; Wales v. Stetson, 2 Mass. 143; Regents, etc., v. Williams, 9 G. & J. 402; Payne v. Baldwin, 3 S. & M. 661; Aberdeen Female Acad. v. Aberdeen, 13 id. 645; Young v. Harrison, 6 Ga. 130; Bush v. Shipman, 4 Scam. 190; People v. Marshall, 6 Ill. 672; Bruffet v. Great W. R. Co., 25 id. 353; People v. Jackson, P. R. Co., 9 Mich. 285; State v. Com. B'k, etc., 7 Ohio, 125; State v. Wash. Soc. Lib., 9 id. 96; Michigan B'k v. Hastings, 1 Doug. 225; Yarmouth v. North Yarmouth, 34 Me. 411; City of Louisville v. University of Louisville, 15 B. Monr. 642; Boston R. Co. v. Salem R. Co., 2 Gray, 1; Commonwealth v. New Bedford Br., id. 339; Aurora T. Co. v. Holthouse, 7 id. 59; Enfield Toll Br. Co. v. Connecticut Riv. Co., 7 Conn. 53.

[3] See *ante*, chap. 3. See, also, Bailey v. Methodist Epis. Ch., 6 R. I. 491; Hyatt v. Whipple, 37 Barb. 595; Miners' Bank v. United States, 1 Morris (Iowa.), 482; Erie R. Co. v. Casey, 26 Penn. St. 287; Sherman v. Smith, 1 Black, 587. In the Matter of the Reciprocity Bank, 29 Barb. 369; 22 N. Y. 9; Suydam v. Moore, 8 Barb. 358; Massachusetts Gen. Hosp. v. State Asso. Co., 4 Gray, 227; Bangor R. Co. v. Smith, 47 Me. 34.

SEC. 438. **Id.**— The reserved power in such cases may exist, as we have suggested, either in the charter granting the franchise or in the general acts for incorporation, or in the general laws of the state applicable to all cases, or in the constitution of the state. And this power may be absolute and unqualified, or it may be limited and qualified. Thus, it is sometimes provided, only that the power may be exercised in case the corporation shall fail to go into operation, or in case it shall abuse or misuse its franchises.[1]

SEC. 439. **Where the reserved power is subject to a condition.**— Where the right to exercise the reserved power is unqualified, the legislature may repeal the act at any time in their discretion; and even a creditor who may be thereby prejudiced cannot interpose to prevent the exercise of it, even though he may have a suit pending against the corporation and property attached therein.[2]

When the right is qualified, in the manner we have noticed, the legislature, it seems, may determine the questions as to the sufficiency of the cause under the qualifying provisions, and repeal or amend the charter according to the power reserved.[3] Under a statute of Massachusetts which provided that every act of incorporation shall, at all times, be subject to amendment, alteration or repeal, at the pleasure of the legislature, provided that no act of incorporation shall be repealed unless for some violation of its charter or other default, when the duration of the

[1] Dartmouth College v. Woodward, 4 Wheat. 518; Terrett v. Taylor, 9 Cranch, 51; 4 Wheat. 661; Mumma v. Potomac Co., 8 Pet. 281; Penobscot Boom Co. v. Lamson, 16 Me. 224; Hodsdon v. Copeland, id. 314; Paschall v. Whetsett, 11 Ala. (N. S.) 472; Mobile, etc., R. Co. v. State, 29 id. 573; State v. Bradford, 32 Vt. 50; Commonwealth v. Union Ins. Co., 5 Mass. 230; Charles Riv. Br. v. Warren Bridge, 7 Pick. 371; People v. Manhattan Co., 9 Wend. 351; People v. Kingston, etc., T. Co., 23 id. 193; People v. Bank of Niagara, 6 Cow. 195; People v. Washington Bank, id. 211; People v. Bank of Hudson, id. 217; People v. Dispensatory, etc., Soc., 7 Lans. 305; Lehigh Bridge Co. v. Lehigh Coal Co., 4 Rawle, 9; Commonwealth v. Commercial Bank, 28 Penn. St. 383; Commonwealth v. Pittsburgh, etc., R. Co., 58 id. 26, State v. Commercial Bank, 33 Miss. 474; Washington, etc., R. v. State, 19 Ind. 239; Canal Co. v. Railroad Co., 4 G. & J. 1; Atchafalaya Bank v. Dawson, 13 La. 497; State v. Pawtuxet T. Co., 8 R. I. 182, 521, McIntire Poor School v. Zanesville Canal Co., 9 Ohio, 203; John v. Farmers' Bank, 2 Black, 367.

[2] Read v. Frankfort Bank, 23 Me. 318; Crease v. Babcock, 23 Pick. 334, Erie R. Co. v. Casey, 26 Penn. St. 287; Miners' Bank v. United States, 1 Greene (Iowa.), 553; State v. Curran, 13 Ark. 321.

[3] Crease v. Babcock, and Erie R. Co. v. Casey, *supra*.

same is limited by some express provision, it has been held that the legislature may determine in what manner a railroad shall exercise its franchises, and may provide for changes in the level, grade and connections thereof; direct the construction of a new connecting track, and in what manner and under whose supervision the work shall be done and how paid for;[1] that it may require a station-house to be built at a particular place,[2] and require several railroad corporations, having tracks terminating in a city, to unite at one station.[3]

But it has been further held that the legislature is not the final judge of the existence of the conditions upon which the right to declare a forfeiture depends, and that, whether the facts warrant the exercise of the power or not, is for the determination of the courts; that the courts must declare a forfeiture and not the legislature;[4] and that the courts can inquire into the facts and determine for them whether there are grounds for forfeiture, and according to such finding and determination of the courts, the act of the legislature on the subject is valid or void.[5]

Sec. 440. **Expiration of the time limited for its continuance.** — Another mode in which a corporation may be dissolved is by expiration of the time for which it was created. This time is frequently, if not generally, fixed in the constating instruments, or by some general law. If the limit of corporate power is thus fixed, when the time arrives the corporation is dissolved with all the consequences of a dissolution by any other mode.[6] But if the continuance beyond a certain time is made to depend upon the performance of a certain condition, the non-performance of it has been held a mere ground of forfeiture, and not an absolute dissolution.[7]

[1] Fitchburg R. Co. v. Grand Junction R. Co., 4 Allen, 198.

[2] Commonwealth v. Eastern R. Co., 103 Mass. 254.

[3] Mayor, etc., of Worcester v. Norwich R. Co., 109 Mass. 103. See, also, Parker v. Metropolitan, etc., R. Co., id. 506; Commissioners v. Holyoke Water Power Co., 104 id. 446; affirmed, Holyoke, etc., Co. v. Lyman 15 Wall. 500.

[4] Bruffett v. Great West. R. Co., 25 Ill. 353; Commonwealth v. Pittsburg, etc., R. Co., 58 Penn. St. 26; Erie R. Co. v. Casey, 26 id. 287.

[5] Id. See, also, Commonwealth v. Essex Co., 13 Gray, 239; Delaware R. Co. v. Tharp, 5 Harr. 454: Curran v. State, 15 How. (U. S.) 304; Flint, etc., P. R. Co. v. Woodhull, 25 Mich. 99.

[6] Bank of Mississippi v. Wrenn, 3 S. & M. 791; Commercial Bank v. Lockwood, 2 Harr. 8; Wilson v. Tesson, 12 Ind. 285.

[7] La Grange, etc., R. Co. v. Rainey, 7 Cold. 420.

The common remedy for avoiding in such cases the reversion or forfeiture of property, the loss of debts and other ordinary consequences of a dissolution, where the statute does not provide for a continuance of corporate powers for the purpose of closing up its affairs, is to make a transfer of the property and interests of the corporation to a trustee for the benefit of stockholders or creditors, before the period for dissolution occurs.[1]

But it has been held, in reference to municipal corporations dissolved by repeal of charters, that the rights of creditors will be protected from invasion, by the constitution of the United States.[2]

SEC. 441. **Neglect or abuse of powers.** — This is one of the most common causes for dissolution. The contract between the state and the corporators, on the acceptance of the provisions of the statute relating to incorporation for private and pecuniary purposes, becomes, as we have seen, inviolable. But the condition imposed upon the corporators is, that they shall carry out the purposes of the corporation on their part and not assume powers not conferred upon them by virtue of the authority given. A neglect of duty or abuse of the power, or an assumption of authority not conferred, is ground of forfeiture of the franchise.[3] But in these cases it can only be dissolved by the judicial determination of a court, on an inquiry into charges made in this respect, and which authorize a decree of dissolution.[4]

[1] Id. See, also, Cooper v. Curtis, 30 Me. 488; Ingraham v. Terry, 11 Humph. 572; Nicoll v. New York R. Co., 12 Barb. 460; People v. Walker, 17 N. Y. 502, as to construction.

[2] Lansing v. Treasurer, etc., 1 Dill. (C. C.) 522; Butz v. Muscatine, 8 Wall. 575; Gelpcke v. Dubuque, 1 id. 175; Thomson v. Lee, 3 id. 327, Soutter v. Madison, 15 Wis. 30; Smith v. Appleton, 19 id. 468; Blake v. Railroad Co., 39 N. H. 435.

[3] 2 Kyd on Corp. 474; Wilcoc. on Corp. 334; 1 Blackst. Com. 485; 2 Kent's Com. 312 *et seq.*; Taylors of Ipswich v. Sherring, 1 Roll. 4; Rex v. Grosvenor, 7 Mod. 199; Rex v. Saunders, 3 East, 119; Rex v. Pasmore, 3 T. R. 246; Eastern Archipelago Co. v. Reginam, 2 E. & B. 857; STORY, J., in Ferrett v. Taylor, 9 Cranch, 51; Dartmouth College v. Woodward, 4 Wheat. 658; Penobscot Boom Co. v. Lamson, 16 Me. 224; Hodsdon v. Copeland, id. 314; All Saints Church v. Lovett, 1 Hall, 198; John v. Farmers' Bank, 2 Blackf. 367; Hamtramck v. Bank of Edwardsville, 2 Mo. 169; Day v. Stetson, 8 Me. 372; State v. New Orleans Gas L. Co., 2 Rob. (La.) 529; Commonwealth v. Commercial Bank, 28 Penn. St. 383.

[4] Id. See, also, Turnpike Co. v. State, 3 Wall. 210; People v. Society, etc., 1 Paine (C. C.), 660; State v. Bradford, 32 Vt. 50; Lea v. American Canal Co., 3 Abb. Pr. (N. S.) 1; Kishacoquillas T. R. Co. v. McConaby, 16 S. & R. 145; Canal Co. v. Railway Co., 4 G. & J. 1; University of Maryland v. Williams, 9 id. 365; Washington & B. T. R. v. Maryland, 19 Md. 239; State v. Cincinnati, 23 Ohio St. 445; Baker v. Backus, 32 Ill. 79; Lindell

SEC. 442. **Same continued.** — The dissolution in such cases must be decreed by a court of competent jurisdiction, and for the right to claim a forfeiture, it may be waived by the state.[1]

On this subject the supreme court of New York observe: "Where a corporation has abused its power, or committed acts which are unlawful, it nevertheless continues legally to exist as a corporate body until the state or government which created it shall, by a proper proceeding, procure an adjudication and enforce a forfeiture of the charter. But all such proceedings are at the instance or on behalf of the state or government. Acts which are improper do not of themselves work a dissolution."[2] And in all such cases the state may waive its right to forfeiture for the failure of the corporation fully to perform its contract with it, in the same way as an individual may waive breaches of contract. This may be, by some act of the legislature, recognizing the corporation after previous acts which would warrant a judgment of forfeiture;[3] or it may be by a refusal or neglect to prosecute the delinquent corporation for the purpose of obtaining a judgment of forfeiture by a competent court.[4] But in order to infer a waiver of the default of a corporation and of the conditions of a charter, by legislative action, the intention in this respect must be distinctly declared by the legislature, or it must be clearly inferable from its acts.[5]

v. Benton, 6 Mo. 361; Attorney-General v. Tudor Ice Co., 104 Mass. 239; Attorney-General v. Bank of Niagara, 1 Hopk. 324; Slee v. Bloom, 5 Johns. Ch. 303; S. C., 19 Johns. 456; Verplanck v. Mercantile Ins. Co., 1 Edw. Ch. 84; Doyle v. Peerless, etc., Co., 44 Barb. 239; State v. Merchants' Ins., etc., Co., 8 Humph. 235; Baker v. Backus, 32 Ill. 79; State v. Commercial Bank, 33 Miss. 474; State v. Urbana Ins. Co., 14 Ohio, 6; Commonwealth v. Fitchburg R. Co., 12 Gray, 180; Ward v. Sea Ins. Co., 7 Paige, 294; Jackson v. Marine Ins. Co., 4 Sandf. Ch. 559; People v. Washington Bank, 6 Cow. 211; People v. Bristol T. Co., 23 Wend. 222; State v. Favell, 24 N. J. L. 370.

[1] State v. Paterson, etc., T. Co., 21 N. J. L. 9.

[2] Ormsby v. Vermont Copper Mining Co., 65 Barb. 360; People v. Manhattan Co., 9 Wend. 351; Bank of Niagara v. Johnson, 8 id. 645; Bear Camp River Co. v. Woodman, 2 Me. 404; Mickles v. Rochester City Bank, 11 Paige, 118; People v. Hillsdale T. Co., 23 Wend. 254.

[3] State v. Paterson, etc., R. Co., 1 Zabr. 9.

[4] State v. Mississippi, etc., R. Co., 20 Ark. 495; State v. Fourth N. H. Turnpike Co., 15 N. H. 162; People v. Manhattan Co., 9 Wend. 351; Same v. Fishkill P. R. Co., 27 Barb. 445; Baltimore, etc., R. Co. v. Marshall Co., 3 W. Va. 319.

[5] Commonwealth v. Union Ins. Co., 5 Mass. 230; Chester Glass Co. v. Dewey, 16 id. 94; Boston Glass Man. v. Langdon, 24 Pick. 52; Quincy Canal v. Newcomb, 7 Metc. 276; Knowlton v. Ackley, 8 Cush. 95; Heard v. Talbot, 7 Gray, 120; Brookville T. Co. v.

SEC. 443. **Mode of proceeding in such cases.** — We have observed that in certain cases the corporation may be dissolved without any adjudication to that effect, as where the time of its limitation has expired, and there is no condition annexed to the charter in this respect.[1]

But in other cases, an adjudication may be necessary, in order to determine its rights and prevent future action.

The ancient common-law modes of procedure for this purpose were by *scire facias* or *quo warranto*. The former, it has been considered, was the proper mode of proceeding, where a corporation had a legal existence and was capable of acting, but by reason of neglect or abuse of its powers it should no longer be permitted so to do; the latter, where an association or body corporate *de facto* undertakes to act as a lawful corporate body, but

McCarty, 8 Ind. 392; Cleveland, etc., R. Co. v. City of Erie, 27 Penn. St. 380; Commonwealth v. Allegheny, etc., Co, 20 id. 185; Dyer v. Walker, 40 id. 157; Vermont, etc., R. Co. v. Vermont C. R. Co., 34 Vt. 57; Connecticut R. Co. v. Bailey, 24 id. 465; Silver Lake Bank v. North, 4 Johns. Ch. 379; Slee v. Bloom, 5 id. 366; 19 Johns. 456; Vernon Society v. Hills, 6 Cow. 23; Thompson v. New York R. Co., 3 Sandf. Ch. 652; Caryl v. McElrath, 3 Sandf. 176; Enfield Toll Br. Co. v. Connecticut Riv. Co., 7 Conn. 46; Pearce v. Olney, 20 id. 544; Kishacoquillas T. Co. v. McConaby, 16 S. & R. 145, Dyer v. Walker, 40 Penn. St. 157; Brookville T. Co. v. McCarty, 8 Ind. 392; John v. Farmers' Bank, 2 Blackf. 367; Pierce v. Somersworth, 10 N. H. 375, per PARKER, C. J.; State v. Fourth N. H. Turnp. Co., 15 id. 162, Cahill v. Kalamazoo Ins. Co., 2 Doug. (Mich.) 124, 141; Bohannon v. Binns, 31 Miss. 355; Crump v. United States Min. Co., 7 Gratt. 352; Canal Co. v. Railroad Co., 4 G. & J. 1; Planters' Bank v. Bank of Alexandria, 10 id. 346; University of Md. v. Williams, 9 id. 365; Hamilton v. Annapolis R. Co., 1 Md. Ch. Dec. 107; Atchafalaya Bank v. Dawson, 13 La. 497; State v. N. O. Gas. L. Co., 2 Rob. (La.) 529; Webb v. Moler, 8 Ohio, 548; Bank of Cir. v. Renick, 15 id. 322; Johnson v. Bentley, 16 id. 97; Myers v. Manhattan Bank, 20 id. 283; Bank of Mo. v. Merchants' Bank, 10 Mo. 123; Bank of Galliopolis v. Trimble, 6 B. Monr. 599; Harrison v. Lexington R. Co., 9 id. 470; Young v. Harrison, 6 Ga. 130; Salem R. Co. v. Tipton, 5 Ala. 805; Duke v. Cahawba Nav. Co., 16 id. 372; State v. Centerville Br. Co., 18 id. 678; Smith v. Plankroad Co., 30 id. 650; Bayless v. Orne, Freem. (Miss.) 173; Smith v. Mississippi R. Co., 6 S. & M. 179; Grand Gulf Bank v. Archer, 8 id. 151; Rex v. Slaverton, Yelv. 190; Rex v. Carmarthen, 1 W. Bl. 187; 2 Burr. 869; Rex v. Amery, 2 T. R. 515; Rex v. Pasmore, 3 id. 244; Terrett v. Taylor, 9 Cranch, 51; 2 Kent's Com. 313; Brice's Ultra Vires, 647 *et seq.*; People v. Kingston T. Co., 23 Wend. 193; People v. Phœnix Bank, 24 id. 431. And this doctrine of waiver does not apply where, by the express terms of the charter, the franchise absolutely determines on failure to perform certain conditions. People v. Manhattan Co., 9 Wend. 351; Commonwealth v. Union Ins. Co., 5 Mass. 232

[1] Bank, etc., v. Wrenn, 3 S. & M. 791; Commercial Bank v. Lockwood, 2 Harr. (Del.) 8; Ang. & Am. on Corp., § 778.

has no legal authority to exercise such powers.[1] But the modern proceeding in such cases is in the nature of *quo warranto*.[2] For, as we have before noticed, although the ancient writ of *quo warranto* was the method whereby legal inquiry was made, as to the authority of a body of persons assuming to act as a corporate body, to legally perform such functions,[3] information in the nature of *quo warranto* is a modern mode of correcting not only the usurpations, but the mis-user or non-user of a corporate franchise.[4] For various reasons the ancient proceedings in England, by writ, fell into disuse, and the modern remedy by information in the nature of *quo warranto* was substituted.[5] Informations of this character may be filed by the attorney-general or the attorney representing the state, or by any other person, by leave of the court.

"The principle is now firmly established," observes Mr. High, "that the granting or withholding leave to file an information, at the instance of a private relator, to test the right to an office or franchise, rests in the sound discretion of the court to which the application is made, even though there be a substantial defect in the title by which the office or franchise is held.[6] In the exercise of this discretion, upon the application of a private relator, it is proper for the court to take into consideration the necessity and policy of allowing the proceedings, as well as the position and motives of the relator in proposing it, since this extraordinary remedy will not be allowed merely to gratify a relator who has no interest in the subject of inquiry.[7] The court will also weigh

[1] See opinion of ASHURST, J., in Rex v. Pasmore, 3 T. R. 244; Regents, etc., v. Williams, 9 G. & J. 365; Brice's Ultra Vires, 589.

[2] 1 Blackst. Com. 485; 2 Kyd on Corp. 474; *ante*, § 453; People v. Bank of Niagara, 6 Cow. 196; People v. Bank of Hudson, id. 217; Same v. Washington, etc., Bank, id. 211; 3 Blackst. Com. 262; Commonwealth v. Small, 26 Penn. St. 31; State v. Ashley, 1 Ark. 279.

[3] High on Extra. Leg. Rem., § 593 *et seq*, and notes.

[4] Id., § 601 *et seq.*, and notes.

[5] See Id, § 591 *et seq.*, for a history of *quo warranto*, and of the proceeding by information in the nature thereof. See, also, 3 Blackst. Com. 263; Attorney-General v. Barstow, 4 Wis. 659.

[6] People v. Waite, Ill. (1874), Chic. Leg. News, 175; State v. Tolan, 33 N. J. Eq. 195; State v. Schnierle, 5 Rich. 299; State v. Fisher, 28 Vt. 714; Commonwealth v. Reigart, 14 S. & R. 216; State v. Brown, 5 R. I. 1. See, also, Stone v. Wetmore, 44 Ga. 495; Commonwealth v. Cluley, 56 Penn. St. 270; People v. Sweeting, 2 Johns. 184. But see State v. Burnett, 2 Ala. 140.

[7] State v. Brown, 5 R. I. 1.

the considerations of public convenience involved, and will compare them with the injury complained of, in determining whether to grant or refuse the application."[1] It is not within the proper scope of this treatise to consider fully the various ordinary and extraordinary remedies, which may be had by and against corporations, or those related to them as stockholders and creditors. Special treatises are devoted to these matters, especially the common-law remedies, by *mandamus*, *quo warranto*, injunction, etc., the general principles relating to which are as applicable to corporations as to individuals.[2]

SEC. 444. We have already noticed, that to warrant a judgment of forfeiture against a corporation on the ground of neglect or abuse of corporate powers, such neglect must be more than the result of mere omission to use certain powers possessed or a mere accident, and such abuse must be willful and not the result of mistake.[3] Thus, it is not a cause of forfeiture for a corporation to neglect to enforce its rights against a delinquent stockholder

[1] High on Extra. Leg. Rem., § 605. See, also, State v. Schnierle, 5 Rich. 299. In former times it was rather a common occurrence for proceedings to be instituted by the crown against corporations for misusing their franchises or against individuals for usurping such principles. State reasons were generally the motive cause. The municipal corporations during the middle ages, and till a period at least as late as the Revolution of 1688, formed one of the main stays of English liberty. The sovereigns encouraged them as the centers of trade, and repressed them by every means, when they attempted to make subservient to political objects the great power which the union and periodical meetings of their members gave them. Other incentives there were, too, which prompted the almost continual interference of the crown with the corporations. Every addition to the importance and strength of them was assumed to be an encroachment upon and a diminution of the prerogative. Moreover, the fines imposed upon corporative bodies, and often upon the luckless corporators themselves, were a lucrative source of revenue. However, with the increase of individual freedom, and the protection for the expression of individual opinions, the political importance of these bodies has greatly diminished; consequently seldom, if ever, does the crown now attack them for an encroachment upon its own privileges, or for any other reason of offense to itself. Brice's Ultra Vires, 649.

[2] See *ante*, chap. 18; also High on Extra. Leg. Rem., tit. *Mandamus* and *Quo Warranto;* Tapping on Mandamus; High on Injunctions; also, *post*, chap. 21, for a treatment of *mandamus*.

[3] A neglect to elect proper officers, or the death of officers, does not usually constitute a cause of dissolution. Vincennes Univ. v Indiana, 14 How. (U. S.) 268; Russell v. McClelland, 14 Pick. 63; Knowlton v. Ackley, 8 Cush. 94; Evarts v. Killingworth Co., 20 Conn. 447; Phillips v. Wickham, 1 Paige, 590; Rose v. Turnpike Co., 3 Watts, 46; Commonwealth v. Cullen, 13 Penn. St. 133; Blake v. Hinkle, 10 Yerg. 218; Nashville Bank v. Petway, 3 Humph. (Tenn.) 524; Cahill v. Kalamazoo Ins. Co., 2 Doug. 140.

by omitting to sell his shares of stock in the company, or to sue such stockholder for unpaid calls,[1] or for the refusal of an insurance company to insure in certain cases,[2] or for refusing to insure in any case, and discontinuing all ordinary business (except settling up its affairs) for the period of a year;[3] nor, generally, that proceedings have been instituted against the corporation under insolvent laws,[4] or that a receiver has been appointed.[5]

"In general, to work a forfeiture, there must be something wrong, arising from willful abuse or improper neglect; something more than accidental negligence, excess of power, or mistake in the mode of exercising an acknowledged power. A single act of abuse or willful non-feasance in a corporation may be insisted on as a ground of total forfeiture, but a specific act of *non-feasance*, not committed *willfully* or *negligently*, not producing nor having a tendency to produce mischievous consequences to any one, and not being contrary to any particular requisition of the charter, will not work a forfeiture."[6] Slight deviations from the provisions of a charter would not necessarily be either an abuse or mis-use of it and ground for its annullment, although it would be competent, by apt words, to make the continuance of the charter conditional upon the strict and literal performance of them.[7] The duties assigned by an act of incorporation are conditions annexed to the grant of the franchises conferred. Hence non-compliance with the requirements of an act incorporating a turnpike company as to the construction of the road is, *per se*, a

[1] Commercial Bank, etc., v. State of Miss., 6 S. & M. 615.

[2] State v. Urbana Ins. Co., 14 Ohio, 6. Acts of neglect do not work a dissolution *ipso facto*, but entitle a stockholder or creditor to take proceedings to have it judicially declared. Mickles v. Rochester City Bank, 11 Paige, 118.

[3] Jackson Marine Ins. Co., In the Matter of, 4 Sandf. Ch. 550.

[4] Coburn v. Boston Papier Mache Manuf. Co., 10 Gray, 243; Rollins v. Clay, 33 Me. 132; Brandon Iron Co. v. Gleason, 24 Vt. 228; State Nat. Bank v. Robadoux, 57 Mo. 446; Platt v. Archer, 9 Blatchf. 559; Boston Glass Manuf. v. Langdon, 24 Pick. 49; Coburn v. Boston Papier Mache Manuf. Co., 10 Gray, 243; Catlin v. Eagle Bank, 6 Conn. 233; Pondville Co. v. Clark, 25 id. 97; Hoyt v. Sheldon, 3 Bosw. 267; Nimmons v. Tappan, 2 Sweeney, 652. But see, under the National Banking Statutes, National Bank v. Colby, 21 Wall. 609.

[5] Taylor v. Franklin Ins. Co., 115 Mass. 278.

[6] People v. Bristol T. R., 23 Wend. 222; Bank Commissioners v. Bank, etc., 6 Paige, 497; Ward v. Sea Ins. Co., 7 id. 294; Paschall v. Whitsett, 11 Ala. 472; State v. Merchants' Ins. Co., 8 Humph. 235; Frederick Female Seminary v. State, 9 Gill, 379; State v. Coll. & H. P. R. Co., 2 Sneed, 254.

[7] Eastern Archipelago Co. v. Reginam, 2 Ellis & B. 857.

mis-user, subjecting the privileges and franchises of the company to forfeiture.[1]

Indeed the non-performance of a particular act required by the charter, whether for the benefit of an individual or the state, is, or may be, a cause of forfeiture, although not especially declared to be such by the charter itself.[2] The non-payment of the portion of the capital required by the charter for the beginning of business, and the sending in by the directors of a false certificate that it was paid and thereupon commencing business, is, as a breach of the conditions of the charter or an abuse of its franchises, cause of forfeiture.[3]

"A *substantial* performance of conditions, however, is all that is required whether they be conditions *precedent* or *subsequent*."[4]

SEC. 445. **Dissolution by the voluntary act of members.** — The doctrine that a private moneyed corporation may be dissolved by the voluntary action of a majority of its members, in the absence of positive provisions to the contrary, contained in the constating instruments, seems generally received in England. On this subject Mr. Brice says: "The majority of a corporation may, against the wishes of the minority, dissolve by winding up, and the more generally received opinion is, that they can do so by any other process which is purely voluntary."[5] And in this country the

[1] People v. Kingston T. Co., 23 Wend. 193. And see Lumbard v. Stearns, 4 Cush. 60; People v. Jackson T. Co., 9 Mich. 285.

[2] Attorney-Gen. v. Petersburgh R. Co., 6 Ired. (N. C.) 456.

[3] Eastern Archipelago Co. v. Reginam, 2 Ellis & B. 857; 22 Eng. L. & Eq. 328; 13 id. 167.

[4] People v. Thompson, 21 Wend. 235; S. C. in error, Thompson v. People, 23 id. 537; Commonwealth v. Allegheny Co., 20 Penn. St. 185. If a railroad corporation should suffer their road to be sold on execution, it would be cause of forfeiture. State v. Rives, 5 Ired. (N. C.) 309. But in Iowa it is provided: "The franchises of a corporation may be levied upon under execution and sold, but the corporation shall not become thereby dissolved, and no dissolution of the original corporation shall affect the franchise, and the purchaser becomes vested with all the powers of the corporation therefor." Code (1873), § 1086.

[5] Brice's Ultra Vires, 651; Ward v. Society of Attorneys, 2 Coll. 370; Bank of Switzerland v. Bank of Turkey, 5 L. T. (N. S.) 549. In England it is now expressly provided by act of parliament (Companies Act, 1862, 25 & 26 Vict., chap. 89, § 79), that a corporation may be wound up in the following cases:

1. Whenever the company has passed a special resolution requiring the company to be wound up by the court.

2. Whenever the company does not commence its business for the space of a whole year.

3. Whenever the members are reduced in number to less than seven.

4. Whenever the company is unable to pay its debts.

5. Whenever the court is of opinion that it is just and equitable that it should be wound up.

right of a private corporation for pecuniary gain to voluntarily dissolve seems generally conceded, notwithstanding the charter constitutes a contract, to which there must necessarily be at least two parties and the assent of both parties is essential to the abrogation of the contract.[1]

But it has sometimes been held in this country that such voluntary surrender must, in order to be effective, be accepted by the state.[2] In some cases surrender has been presumed merely from the neglect to use the corporate powers;[3] and in others that neither non-user, suspension of business, nor the sale or assignment of the corporate property, will necessarily constitute a surrender of the corporate franchises.[4] But acts which destroy the end for which the corporation was created have been held to be a surrender of its corporate rights and powers.[5] And it is evident that such conduct on the part of the corporation would be *ultra vires*, and be just ground for a judgment of forfeiture against it. In this country it has been held that corporations for pecuniary gain may, by a vote of a majority of its members, wind up their affairs; or they may sell the whole of their property to a new corporation and take shares of its stock

[1] Riddle v. Locks, etc., Co., 7 Mass. 185; Hampshire v. Franklin, 16 id. 86; Savage v. Walshe, 26 Ala. 619; Mobile, etc., R. Co. v. State, 29 id. 573; 2 Kent's Com. 310; Mumma v. Potomac Co., 8 Pet. 281; Penobscot Boom Co. v. Lamson, 16 Me. 224; Hodsdon v. Copeland, id. 314; Enfield Toll Br. Co. v. Connecticut, etc., R. Co., 7 Conn. 45; Slee v. Bloom, 19 Johns. 456; McLaren v. Pennington, 1 Paige, 107; Canal Co. v. Railroad Co., 4 G. & J. 1; Attorney-Gen. v. Clergy Soc., 10 Rich. Eq. 604; McIntire v. Zanesville Canal Co., 9 Ohio, 203; 1 Kyd on Corp. 1, 9, 10; Rex v. Amery, 2 T. R. 531; Rex v. Gray, 8 Mod. 361.

[2] Revere v. Boston Copper Co., 15 Pick. 351; Boston Glass Co. v. Langdon, 24 id. 49; Enfield Toll Br. Co. v. Connecticut, etc., R. Co., 7 Conn. 45.

[3] Brandon Iron Co. v. Gleason, 24 Vt. 228; Brinkerhoff v. Brown, 7 Johns. Ch. 217; Barclay v. Talman, 4 Edw. Ch. 123; People v. Bank of Hudson, 6 Cow. 217; Bradt v. Benedict, 17 N. Y. 93; State v. Bank of Md., 6 G. & J. 205; University of Md. v. Williams, 9 id. 365; Town v. Bank of River Raisin, 2 Dougl. (Mich.) 541; Bruffett v. Great Western R. Co., 25 Ill. 353.

[4] Id.; Penobscot Boom Co. v. Lamson, 16 Me. 224; Brandon Iron Co. v. Gleason, 24 Vt. 228; Newton, etc., Co. v. White, 42 Ga. 148.

[5] Strickland v. Prichard, 37 Vt. 324; Slee v. Bloom, 19 Johns. 456; Penniman v. Briggs, 1 Hopk. 300; S. C., 8 Cow. 387; People v. Hudson, 6 id. 217; Moore v. Whitcomb, 48 Mo. 543. Mr. Dillon observes in relation to municipal corporations: "Since all our charters of incorporation come from the legislature, there can be no dissolution of a municipal corporation by a surrender of its franchise * * * If there could be any such thing, it would, from necessity, have to be made to the legislature, and its acceptance would have to be manifested by appropriate legislation." Dill on Mun. Corp., § 111.

in payment, to be distributed among the members of the old company who are willing to take them.[1] And under an existing statute of Massachusetts a majority of members, or those representing a majority of shares, may, by application to the supreme court, setting forth reasonable grounds therefor, secure a dissolution of the corporation.[2]

SEC. 446. **When the majority may surrender the franchise.**— The question as to the unanimity required by the corporators in order to accomplish a voluntary surrender of corporate franchises may depend upon the provisions of the charter. If there is no provision upon this subject, and no definite period of limitation to corporate existence, it has been uniformly held that a majority may, by resolution, surrender its charter;[3] but if it is otherwise provided in the constating instruments, or if the duration of the corporation is fixed by them, unanimity of the stockholders is held essential to a surrender[4]

[1] Wilson v. Central Br. Co., 9 R. I. 590; Treadwell v. Salisbury Man. Co., 7 Gray, 393.

[2] Gen. Stat. Mass., chap. 68, § 35. See, also, Stat. 1852, chap. 55; Pratt v. Jewett, 9 Gray, 34. The Code of Iowa, § 1036 (1873), provides: "No corporation shall be dissolved prior to the period fixed in the articles of incorporation, except by unanimous consent, unless a different rule has been adopted in their articles." A private corporation may surrender its franchise. The People v. The President, etc., of the College of California, 38 Cal. 166; 1 With. Corp. Cas. 161.

[3] See authorities already cited on the question. See, also, Treadwell v. Salisbury Man. Co., 7 Gray, 393; Wilson v. Proprietors, etc., 9 R. I. 590; Zabriskie v. Hackensack R. Co., 18 N. J. Eq. 193; Black v. Delaware, etc., Canal Co., 7 id. 404, McCurdy v. Myers, 44 Penn. St. 435. But see Kean v. Johnston, 1 Stockt. 401; Revere v. Boston Cop. Co., 15 Pick. 351; Curien v. Santini, 16 La. Ann. 27; Polar Star Lodge v. Polar Star Lodge, id. 53.

[4] Von Schmidt v. Huntington, 1 Cal. 55.

Chancellor ZABRISKIE in Black v. Delaware, etc., Canal Co., *supra*, observes: "But there is no case that holds that a majority of corporators, where a time is not specified for which the enterprise must be continued, may not abandon the enterprise and sell out the property of the company. * * * Becoming incorporated for a specified object without any specified time for the continuance of the business is no contract to continue it forever any more than articles of partnership without stipulations as to time." Corporations cannot be compelled to use their powers where their interests will not be subserved thereby. People v. Albany, etc., R. Co., 24 N. Y. 261; Treadwell v. Salisbury Man. Co., 7 Gray, 393.

And provision is frequently made by statute that, in case of dissolution either by expiration of the time fixed by law or by the voluntary act of the stockholders, corporate functions continue for the purpose of winding up the corporate concerns. Iowa Code (1873), § 1080. In Revere v. The Boston Copper Co., 15 Pick. 351, the defendant had made a contract with the plaintiff to serve its interest during

SEC. 447. **Dissolution under statutes providing for the winding-up of corporations.** There are, perhaps, generally, statutory provisions

life, and promised in consideration thereof the payment of a fixed salary so long as the services continued to be faithfully performed. The court say: "The defendant corporation was established by the legislature in February, 1825, and about a month after its incorporation made the contract on which the question arises.

"That agreement was made in March 15, 1825, and the cause depends upon its construction. It purports to be a mutual agreement between the corporation on the one part and the plaintiff and another individual on the other part. It is contended by the defendants that by the proceedings stated in the case this corporation was dissolved and determined, and so by the limitation in the contract itself the term for which the plaintiff was engaged had ceased. Without determining whether such a voluntary dissolution of the corporation was the event contemplated by the parties in the clause alluded to, we are of the opinion that by the acts disclosed this corporation was not dissolved. By a reference to the act of incorporation, Stat. 1824, chap. 61, amended as to the name by Stat. 1825, chap. 124, it appears, that the company was not incorporated for any determinate time, and was, therefore, in its nature, perpetual. We think such a corporation cannot dissolve itself, and terminate its own existence, at its own will, by a bare notice to the executive department of the government. It may be asked, then, what could have been contemplated by the clause in the contract, limiting the term of the plaintiff's engagement to the time for which the corporation was established; or how a corporation not limited in its duration can be dissolved and terminated. I suppose no reasonable doubt can exist, that the power to create, by the consent of parties, may with the like consent dissolve a corporation. An act of incorporation is deemed to be a contract, between its members and the sovereign, formed by the consent of both parties; and it is conformable to the spirit of the law of contract, that with the like consent, it may be abrogated and discharged, and, therefore it would be competent for the legislature, by a formal act, to accept such a surrender, and thereupon dissolve the corporation. This would afford a security to the public and to all those who might have an interest in the concerns of such corporation, that no dissolution would be sanctioned by the legislature, which would, in its consequences, impair their rights. But there is another circumstance which may be deemed sufficient to give a meaning and effect to this part of the agreement. Although this act of incorporation had no provision limiting its duration to any certain time, yet it was made subject in all respects to the provisions of the general act regulating manufacturing corporations, Stat. 1808, chap. 65, § 7, by which it is provided, that the legislature shall have power at any time afterward to modify or wholly repeal any act of incorporation thereafterward to be made. This provision is, therefore, substantially embodied into the act of incorporation and made part of it. In consequence of this provision, the act was in effect held at the pleasure of the legislature, and had they passed an act, repealing it after a certain time, the period thus limited would determine the time for which it was incorporated, and fix a limit to the term of the plaintiff's engagement. But as no such act was passed, and no act was done which in our opinion would dissolve the corporation, the time for which the plaintiff engaged has not been limited or fixed by the clause in question. The question then recurs, upon the construction and legal effect of this contract.

"The first and fundamental rule in the construction of a contract is to ascertain the meaning and intent of the parties; and the second is to look at every clause and word of the instrument in which they have embodied their contract, to ascertain that meaning. The engagement of the plaintiff to

in the various states, for the dissolution of corporations and the winding up of their affairs by proceedings in court. These frequently provide when, for what causes, and in what mode corpo-

perform services, being for the time for which the corporation was established, when applied to a corporation, constituted as already stated, is for an indefinite time, determinable by the dissolution of the corporation in a mode fixed by law. The stipulation of the corporation is to pay the salaries to the plaintiff and the other individual, so long as they shall continue to perform their part of this agreement. They, without any further provision, must render the contract determinable by the death of the plaintiff, or by any failure to perform his part of the contract. But this is not left to inference. The next and last clause provides that, in case of the death or refusal to perform the agreement of the said Revere, or other individual, the corporation is to be discharged from all obligation except to the survivor or party continuing to perform. This clause, to my mind, carries a necessary implication that, until the death of the plaintiff or his refusal to perform his agreement, the corporation is not discharged, but the obligation to pay continues, and further, that upon the death or refusal to perform of one, the obligation of the corporation is to continue as to the other. This makes it essentially a contract with each, for life. For although this term is not used, yet a contract with a corporation, which is in its nature perpetual, but determinable by some contingent event, is a contract for an indefinite time, and a stipulation by the corporation to pay so long as the other party shall perform, with a proviso that, by the death of the party contracting to perform services, the corporation shall be discharged, is in legal effect a contract for life. Such, it appears to the court, was the contract in the present case.

"In opposition to this view, it is contended, in the able argument for the defendants, that this could not have been the meaning and intent of the parties, because it would be unequal; in case of the ill success of the contemplated enterprise, injurious and ruinous to the company; and as the obvious intent and expectation of the company, of whom the plaintiff was one, was to carry on a useful, and successful, and profitable business, the contract must be taken to have been made with the necessary limitation, that, if the business proved unprofitable, the defendants must be at liberty to bring it to a close, that should terminate their obligation to employ and pay the plaintiff for services. They contend, that the parties contemplated, not the legal dissolution of the corporation, but the determination of its business existence, and this they had a right to determine whenever they should find the enterprise unsuccessful, after a full and fair trial, and should in good faith for that cause judge it expedient to bring its business to a close. These views would certainly deserve great consideration, and a more thorough investigation, if the terms of the contract were doubtful or ambiguous, and if it were open to construction. But if the terms of the contract are plain and perspicuous, it is not enough to say, that the parties could not have intended what their language has plainly expressed. The bargain may have been hasty or improvident, or one of which we cannot see the reasons or ground. Still, if such was the contract, and entered into fairly, it is not for a court of law to vary or alter it, or change its legal effect, upon vague notions of improvidence or inequality, or on account of its being founded upon expectations which have not been realized. But, although in the result it may have proved unprofitable to the corporation, the court cannot perceive that it was unequal as between the parties. It is to be presumed that the plaintiff had skill and experience in his business, and was so considered by the company. They require him to stipulate that he will devote the whole of his time, skill and attention to their business for his life, and will engage in no other business. The court are not informed what business the plaintiff and Blake were in before, what good-

rations may be wound up.[1] In the absence of statutory regulations, which frequently provide for the continuance of the corporate functions, after dissolution, for the purpose of saving the

will or run of custom, or profitable concern, they gave up and in effect brought to the corporation by this agreement, or what offers or expectations they might have had from rival companies. Whatever they were they were relinquished forever by this contract. The corporation secured to themselves the exclusive benefit of the services of these individuals; and, although it may not have been beneficial to the corporation, it may have deprived the plaintiff and his associate of profitable engagements elsewhere.

"One other ground of defense suggested, but I think not very confidently urged by the defendants' counsel, is, that the plaintiff himself was one of the corporation, and as such was bound by its acts; and that, when a majority of the corporation voted to dissolve and wind up the business of the company, he was bound by it, though he individually dissented.

"But we think it clear that this argument cannot be sustained. So far as his rights, duties and obligations as a *corporator* were concerned, no doubt he is bound by the acts of a majority, but no further. Here he claims, not as a corporator, but upon a contract in which he is one party and the corporation the other. One of the main purposes and principal effects of incorporation is to create a separate person in law, capable of acting and contracting in a separate capacity; and such conventional person and body politic has a legal existence independent of that of all its members, and, therefore, may as well contract with one of its own members, as with other persons. It follows, as a necessary consequence, that such contracts must be construed and carried into effect in the same manner as contracts between other parties, and that the votes and acts of the corporation can have no effect to deprive the plaintiff of rights which he claims, not as a corporator, but as a contractor with the corporation.

"As the damages are not assessed, it may be proper to say a few words upon that subject. We consider the true effect of this agreement to be this, to employ the plaintiff and to pay him an annual salary during such employment; and the action is brought for a breach of that promise. The defendants have broken up their establishment, and given the plaintiff formal notice that they have no further occasion for his services. This discharges the plaintiff from his obligation to serve them and to engage in no other business, and puts him in a condition to engage in any other employment at his pleasure. This being in violation of the defendants' contract with the plaintiff, to employ and pay him, gives him a claim for damages. The measure of his damages is an indemnity for the loss he has sustained by reason of not being thus employed and paid, and the damages are to be assessed on that principle." See, also, Curran v. State of Arkansas, 15 How. (U. S.) 304.

[1] See Gen. Stat. Mass. (1860), 388, §§ 35–39; N. Y. Stat. at Large (Edmonds' ed.), vol. I, 557; vol. II, 488; Curwin's R. S. Ohio, chap. 592, §§ 1–2, p. 1153; Swan & Saylor's Sup. p. 243; Statutes of Ill. (1871), p. 577, § 25; Wagner's Stat.. Mo., p. 293, §§ 21–22; Brightley's Purdon's Dig. Penn. (1862), p. 197; Code of Iowa (1873), § 1074. According to the provisions of the Iowa Code intentional fraud, in failing to comply with the articles of incorporation, or in deceiving the public or individuals in reference to the means and liabilities of the corporation, shall cause a forfeiture of all the privileges conferred by incorporation, and the courts may proceed to wind up its business, by an information in the manner prescribed by law. Id. See, also, §§ 1071, 1072.

rights of interested parties, and closing up of its affairs, the rights of creditors would, perhaps, in most cases, be saved and protected by the application of the liberal equitable doctrine now generally recognized in such cases,[1] that the property and funds of a corporation are held in trust for the payment of creditors, and that they may be followed for this purpose into the hands of any party, save such as are *bona fide* purchasers without notice.[2]

SEC. 448. The act of congress in relation to national banks provides in reference to dissolution as follows: "Any association [*i. e.*, banking association organized under the statutes of the United States] may go into liquidation and be closed by the vote of its shareholders owning two-thirds of the stock."[3]

This act provides in detail as to the mode of proceeding in case of a dissolution; the duties of the receiver appointed in such cases,[4] and what is required to wind up a national banking association.[5]

[1] Id. See, also, Pomeroy v. Bank, 1 Wall. 23; McGoon v. Scales, 9 id. 23; Muscatine Turn Verein v. Funck, 18 Iowa, 469; Crease v. Babcock, 10 Metc. 525; Grew v. Breed, id. 569; Lea v. American, etc., R. Co., 3 Abb.Pr. (N.S.) 1; Stetson v. City Bank, 13 Ohio St. 577; Herron v. Vance, 17 Ind. 595; Franklin Bank v. Cooper, 36 Me. 179; Mariners' Bank v. Sewall, 50 id. 220; Blake v. P. & C. R. Co., 39 N. H. 435.

[2] Chicago, R.I. & P.R. Co. v. Howard, 7 Wall. 392; The People v. The President and Trustees of the College of California, 38 Cal. 166; Wood v. Dummer, 3 Mason, 308; Mumma v. Potomac Co., 8 Pet. 281; Curran v. State, 15 How. (U. S.) 304; Bacon v. Robertson 18 id. 480; Sum v. Robertson, 6 Wall. 277; Read v. Frankfort Bank, 23 Me. 318; Nathan v. Whitlock, 9 Paige, 152; Tinkham v. Borst, 31 Barb. 407; Gillett v. Moody, 3 N. Y. 479; State v. Bailey, 16 Ind. 46; Adler v. Milwaukee, etc., Co., 13 Wis. 57; Hightower v. Thornton, 8 Ga. 486; Nevitt v. Bank, etc., 6 S. & M. 513; Paschall v. Whitsett, 11 Ala. (N.S.) 471.

[3] Rev. Stat. of U. S., 1873-4, tit. 62, chap. 4, § 5220. The English Act, 25 & 26 Vict., chap. 89; Buckley, p. 263, provides as follows:

"A company under this act may be wound up voluntarily:

"1. Whenever the period, if any, fixed for the duration of the company by the articles of association expires, or whenever the event, if any, occurs, upon the occurrence of which it is provided by the articles of association that the company is dissolved, and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily.

"2. Whenever the company has passed a special resolution requiring the company to be wound up voluntarily.

"3. Whenever the company has passed an extraordinary resolution to the effect that it has been proved to their satisfaction that the company cannot, by reason of its liabilities, continue its business, and that it is advisable to wind up the same."

[4] Id. See § 234 *et seq.*; Kennedy v. Gibson, 8 Wall. 498; Bank of Bethel v. Pahquioque Bank, 14 id. 383; Bank v. Kennedy, 16 id. 19; *In re* Platt, Receiver, etc., 1 Ben. 534.

[5] It is provided for the winding up of such associations as follows.

"Sec. 5226. Whenever any national banking association fails to redeem in lawful money of the United States any of its circulating notes, upon demand of payment duly made during the usual hours of business, at the office of such association, or at its designated place of redemption, the holder

SEC. 449. **Dissolution by the death of all the members.** — It is a recognized common-law doctrine that private corporations become

may cause the same to be protested, in one package, by a notary public, unless the president or cashier of the association whose notes are presented for payment, or the president or cashier of the association at the place at which they are redeemable, offers to waive demand and notice of the protest, and, in pursuance of such offer, makes, signs, and delivers to the party making such demand an admission in writing, stating the time of the demand, the amount demanded, and the fact of the non-payment thereof. The notary public, on making such protest, or upon receiving such admission, shall forthwith forward such admission or notice of protest to the comptroller of the currency, retaining a copy thereof. If, however, satisfactory proof is produced to the notary public that the payment of the notes demanded is restrained by order of any court of competent jurisdiction, he shall not protest the same. When the holder of any notes causes more than one note or package to be protested on the same day, he shall not receive pay for more than one protest.

"Sec. 5227. On receiving notice that any national banking association has failed to redeem its circulating notes, as specified in the preceding section, the comptroller of the currency, with the concurrence of the secretary of the treasury, may appoint a special agent, of whose appointment immediate notice shall be given to such association, who shall immediately proceed to ascertain whether it has refused to pay its circulating notes, and if in default, he shall, within thirty days after he has received notice of such failure, declare the bonds deposited by such association forfeited to the United States, and they shall thereupon be so forfeited.

"Sec. 5228. After default on the part of an association to pay any of its circulating notes has been ascertained by the comptroller, and notice of forfeiture of the bonds has been given by him to the association, it shall not be lawful for the association suffering the same to pay out any of its notes, discount any of its bills, or otherwise prosecute the business of banking, except to receive and safely keep money belonging to it, and deliver special deposits.

"Sec. 5229. Immediately upon declaring the bonds of an association forfeited for the non-payment of its notes, the comptroller shall give notice, in such manner as the secretary of the treasury shall, by general rules, or otherwise, direct, to the holders of the circulating notes of such association, to present them for payment at the treasury of the United States; whereupon the comptroller may, in his discretion, cancel an amount of bonds pledged by such association equal at current market rates, not exceeding par, to the notes paid.

"Sec. 5230. Whenever the comptroller has become satisfied, by the protest or the waiver and admission specified in section 5226, or by the report provided for in section 5227, that any association has refused to pay its circulating notes, he may, instead of canceling its bonds, cause so much of them as may be necessary to redeem its outstanding notes to be sold at public auction in the city of New York, after giving thirty days' notice of such sale to the association. For any deficiency in the proceeds of all the bonds of an association, when thus sold, to reimburse to the United States the amount expended in paying the circulating notes of the association, the United States shall have a paramount lien upon all its assets, and such deficiency shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

"Sec. 5231. The comptroller may, if he deems it for the interest of the United States, sell at private sale any of the bonds of an association shown to have made default in paying its notes, and receive therefor either money or the circulating notes of the association. But no such bonds shall be sold by private sale for less than par, nor for less than the market value thereof at the time of sale, and no sales of any such bonds, either public or private, shall be complete until the

dissolved, *ipso facto*, by the loss of all their members by death. "A corporation," observes Mr. Brice, "perishes whether the whole of its members have died out, or the whole of those who constitute an integral essential part, provided there is no means of repairing the breach." [1]

The doctrine of dissolution in case of a destruction of an integral part has little, if any, application to private corporations for pecuniary gain as created under general statutes in this country. It has been justly observed in reference to them, that "the stockholders compose the company, and the managers, or directors and officers, are their agents, necessary for the management of the affairs of the company, but not essential to its existence as such, and not forming an integral part. The corporation exists *per se* so far as it is requisite to the maintenance of perpetual succession and the holding and preserving of its franchises. The non-existence of the managers does not suppose the non-existence of the corporation. The latter may be dormant; its functions may be suspended for want of the means of action, but the capacity to restore its functionaries by means of new elections remain. When, therefore, the election of its managers, directors or other officers, is by charter to be conducted solely by the stockholders, the charter or act of incorporation not requiring the managers, directors or other officers to preside at or do any act in relation to the election, a failure to elect such officers on the charter day will not dissolve the corporation, but the election may take place on the next charter day without any new legislative aid." [2]

transfer of the bonds shall have been made with the formalities prescribed by sections fifty-one hundred and sixty-two, fifty-one hundred and sixty-three, and fifty-one hundred and sixty-four." Rev. Stat., U. S., 1874.

[1] Brice's Ultra Vires, 655, 656; citing Rex v. Morris, 4 East, 17. See, also, American authorities; Penobscot Boom Co. v. Lamson, 16 Me. 224; Boston Glass Man. Co. v. Langdon, 24 Pick. 52; Phillips v. Wickham, 1 Paige, 596; Canal Co. v. Railroad Co., 4 G. & J. 1; McIntire Poor School v. Zanesville C. Co., 9 Ohio, 203.

[2] Rose v. Turnpike Co., 3 Watts, 46; Wier v. Bush, 4 Little, 433; Nashville Bank v. Patway, 3 Humph. 524; Smith v. Natchez Samb. Co., 2 How. (Miss.) 478; Phillips v. Wickham, 1 Paige, 590; Evarts v. Killingworth Man. Co., 20 Conn. 447; Commonwealth v. Cullen, 13 Penn. St. 133; Lowber v. New York, 5 Abb. Pr. 325; Clarke v. City of Rochester, id. 107; Russell v. McLellan, 14 Pick. 63; Knowlton v. Ackley, 8 Cush. 94; Cahill v. Kalamazoo Ins. Co., 2 Doug. (Mich.) 140. Mr. Dillon observes: "In this respect [the failure to elect officers] municipal corporations resemble ordinary private corporations which exist *per se*, and

The death of all the members can hardly be possible with a joint-stock corporation, as the stock would on the decease of the owner be represented by and vested in some one who would become a member of the corporation by virtue of such stock, and entitled to all the rights and privileges of such former member.

Sec. 450. **Effect of dissolution generally at common law.** — According to the common law a corporation of any kind that was dissolved, or ceased as such to exist for any cause, was considered as civilly dead, and could no more act by its agents or otherwise than a natural person under the same circumstances. The result, too, of such civil death by the ancient common law was that all lands held by it at the time reverted to the grantor or his heirs, as it was held to be a condition implied in all grants to corporations that if for any cause the grant failed, by death or otherwise, the lands granted should revert;[1] and debts due to or from it were extinguished, as there were no heirs or representatives of a corporation. Leases were rendered void because of the reversion of the lands;[2] lands held in trust for charitable purposes were lost; suits pending by or against it were abated; and the personal property became vested in the king,[3] and, in this country, in the people.[4]

"These consequences of the dissolution of a corporation," observes Mr. Dillon, "attached to all corporations, eleemosynary, municipal and private; and since this doctrine has, in this country, been generally rejected as to private corporations organized for pecuniary profit, and rests upon no foundation in reason or justice, it may perhaps be safely affirmed that it would not, on full consideration, be applied to the dissolution of a municipal

consist of the stockholders who compose the company. The officers are their agents or servants, but do not constitute an integral part of their corporation, the failure to elect whom may suspend the functions, but will not dissolve the corporation." Dill. on Mun. Corp., § 110; People v. Fairbury, 51 Ill. 149.

[1] Co. Litt. 13 b, 102 b; Knight v. Wells, 1 Sut. 519; Rex v. Pasmore, 3 T. R. 199; White v. Campbell, 5 Humph. 38; Bingham v. Weiderwax, 1 N. Y. 509; 2 Kyd on Corp. 516; 2 Kent's Com. 307; 4 Blackst. Com. 484.

[2] Ang. & Am. on Corp., § 779; citing Greeley v. Smith, 3 Story, 657; Merrill v. Suffolk Bank, 31 Me. 57; Ingraham v. Terry, 11 Humph. 572; Saltmarsh v. Planters' Bank, 17 Ala. 761. Contra, Lindell v. Benton, 6 Mo. 361.

[3] Id.

[4] 2 Kent's Com. 307.

corporation by an absolute and unconditional repeal of its charter, or (if that may be done) to the case where the charter of such corporation is forfeited by judicial sentence."[1] If in the case of municipal corporations, a court of chancery will treat the corporate assets as a trust fund, in case of the dissolution of a corporation by legislative action, and will assume the execution of the trust, or see that it is properly executed, as has been noticed,[2] the same rule ought to prevail in cases of private corporations for pecuniary gain. And the tendency of recent opinions seems to support this view; and to sustain the doctrine that the surplus assets, after the satisfaction of the claims of creditors and the payment of expenses, even in the absence of statutory provisions on the subject, belong to the stockholders; that lands conveyed to such a corporation for a full consideration in fee do not revert to the grantor; and that the doctrine of the old common law, in such cases as to reversion and forfeiture of the corporate property, if applicable at all, is not applicable to private corporations for pecuniary emolument.[3]

[1] Dill. on Mun. Corp., § 113; Bacon v. Robertson, 18 How. (U. S.) 480; Girard v. Philadelphia, 7 Wall 1; Mumma v. Potomac Company, 8 Pet. 281; Curran v. Arkansas, 15 How. (U. S.) 312; 2 Kent's Com. 307, note; Coulter v. Robertson, 24 Miss. 278; County Commissioners v. Cox, 6 Ind. 403; State v. Trustees, etc., 5 id. 77; Vincennes University v. Indiana, 14 How. (U. S.) 268; Owen v. Smith, 31 Barb. 641; Commonwealth v. Roxbury, 9 Gray, 510, note.

[2] Girard v. Philadelphia, 7 Wall. 1; Montpelier v. East Montpelier, 29 Vt. 12; 27 id. 74.

[3] Bacon v. Robertson, 18 How. (U. S.) 480, in which Mr. Justice CAMPBELL observes: "The common law of Great Britain was deficient in supplying the instrumentalities for a speedy and just settlement of the affairs of an insolvent corporation, whose charter had been forfeited by judicial sentence The opinion usually expressed as to the effect of such a sentence was unsatisfactory and questioned. There had been instances in Great Britain of the dissolution of public or ecclesiastical corporations by the exertion of public authority, or as a consequence of the death of their members, and parliament, and the courts had affirmed, in these instances, that the endowments they had received from the prince of pious founders would revert in such a case." See, also, Stat. *deterris Templariorum*, 17 Edw. II.; Dean and Canons of Windsor, Godb. 211; Johnson v. Norway, Winch. 37; Owen, 73; 6 Vin. Abr. 280. Mr. Green, in his note to Brice's Ultra Vires, p. 85, observes. "Modern legislation has modified the odious rule of the common law, that upon the dissolution of a corporation, its remaining real estate unsold reverts to the grantor and his heirs, and the courts in similar spirit hold that where a corporation is authorized to acquire a fee-simple to lands belonging to private persons, for public use, and such acquisition is had and compensation accepted, no reversionary estate remains, but the property may be used for any purpose, or may be disposed of by the corporation." Heyward v. Mayor, 7 N. Y. 314; Rexford v. Knight, 11 id. 308; Brooklyn Park Com. v. Armstrong, 3 Lans. 429; S. C., 45 N. Y. 234; Dingley v. City of Boston, 100 Mass. 544; DeVaraigne v. Fox, 2 Blatchf. 95; Commonwealth v. Fisher, 1 P. & W. 462; Plitt v. Cox, 43 Penn. St. 486; Haldeman v. Penn. R. Co., 50 id. 425.

Sec. 451. **Effect of dissolution upon creditors.** — Can the legislature, by a repeal of the charter of a private corporation, under authority so to do, affect the rights of creditors of such corporation?[1] The modern doctrine on this question is, that the dissolution either by legislative act or by judicial sentence cannot impair the obligations of a contract between the corporation and its creditors, any more than the death of a private and natural person can affect his contracts with others. "This doctrine," observes Mr. Dillon, "is based upon two grounds: First. The obligation survives, and the creditors may enforce their claims against the property belonging to the corporation which has not passed into the hands of *bona fide* purchasers. Second. Every creditor is presumed to contract with reference to a possibility of a dissolution of the corporate body." The former common-law doctrine in reference to the disastrous effects of a dissolution, and the civil death of a corporation, has been the subject of just criticism; and it is doubtful if it would now be applied to any class of corporations.[2] The doctrine now, as we have frequently observed, is, that the property and assets of a corporation are held in trust. First. For the payment of creditors. Secondly. For division among the stockholders.[3] This right of creditors and stockholders is based not only upon natural justice and manifest equity,

[1] Dill. on Mun. Corp., § 115, note 1; citing Mumma v. Potomac Company (holding that on *sci. fa.* a judgment could not be revived, or costs adjudged against a corporation legislatively annulled), 8 Pet. (U. S.) 281, 1834. In the case of Port Gibson v. Moore, 13 Sm. & Marsh, 157 (1849), it was held, indeed, that the repeal of the charter of an indebted municipal corporation dissolved it; that such dissolution extinguished debts to and from the corporation; and that a subsequent act reincorporating the place did not make it liable for a debt existing anterior to the act repealing its charter. The court overlooked the constitutional provision protecting contracts, and the case as to the effect of a dissolution upon the rights of creditors seems to conflict with those above cited. See, further, as to extinguishment of debts by dissolution of corporation, Malloy v. Mallett, 6 Jones Eq. 345; Hopkins v. Whitesides, 1 Head (Tenn.), 31; Bank v. Lockwood, 2 Harr. (Del.) 8; Robinson v. Lane, 19 Ga. 337; Muscatine Turn Verein v. Funck, 18 Iowa, 469; Owen v. Smith, 31 Barb. 641; Welch v. Ste. Genevieve, 1 Dill. (C. C.) 130.

[2] Id. See, also, James v. Woodruff, 2 Den. 574; Tinkham v. Borst, 31 Barb. 407; Butterworth v. O'Brien, 24 How. Pr. 438; Adler v. Milwaukee, etc., Co., 13 Wis. 57; Lum v. Robertson, 6 Wall. 277; New Albany v. Burke, 11 id. 96; Burke v. Smith, 16 id. 390; Sawyer v. Hoag, 17 id. 610; State v. Bailey, 15 Ind. 46; Bacon v. Robertson, 18 How. 480; Curran v. State of Arkansas, 15 id. 312.

[3] See *ante*, chap. 19. For additional authorities see Lum v. Robertson, 6 Wall. 277; New Albany v. Burke, 11 id. 96; Burke v. Smith, 16 id. 390; State v. Bailey, 16 Ind. 46; Bank of Salem v. Caldwell, id. 469.

but it has recently been held that it is protected by the provisions of the constitution of the United States.[1] And it may be observed generally, that in case of a lawful contract resting upon authority conferred by statute, the repeal of such statute in a lawful manner could not affect the validity of such contract. If such contracts are legal when made, they could not be affected by such a repeal.[2] And this doctrine has application to contracts entered into by private corporations, by virtue of authority vested in them, and the corporations are subsequently dissolved by the legislature, by a repeal of the charter or other revocation of the franchise conferred, where authority for this purpose is reserved in such legislature.

SEC. 452. **Forfeiture not the subject of collateral inquiry.** — The general doctrine is, that grounds of forfeiture or for dissolution of a corporation cannot be shown in a collateral proceeding. The question as to the right to exercise corporate functions, or to continue the use of corporate powers, is generally held to be one in which the state only is interested, and that she may waive the right of forfeiture; and if proceedings are had to determine this particular question, they must be instituted by the legal officer of the state; or, if by another person, leave of court is usually required, as we have seen; and that this is granted only on a showing of facts, which authorize such proceeding. But the mode of proceeding in such cases is usually a matter of statutory regulation. If a party contracts with a corporation, in the absence of fraud or bad faith in the matter, he is usually estopped from denying its legal existence.[3]

[1] Curran v. State of Arkansas, 15 How. (U. S.) 312; 2 Kent's Com. 307, note *a;* Hightower v. Thornton, 8 Ga. 486; Bacon v. Robertson, 18 id. 480; Lum v. Robertson, 7 Wall. 277; New Albany v. Burke, 11 id. 96; Burke v. Smith, 16 Ind. 390. See, also, Salem v. Caldwell, 17 id. 469, where it was held that a subscriber to an insurance company could not, in a suit by an assignee on his subscription note, offset a claim against the company purchased by him.

[2] Van Hoffman v. Quincy, 4 Wall. 535; Woodruff v. Trapnall, 10 How. (U. S.) 206; Lansing v. County Tr., 1 Dill. (C. C.) 522; Muscatine v. Railroad Co., id. 536; Soutter v. Madison, 15 Wis. 30; Western Sav. Bank v. Philadelphia, 31 Penn. St. 175; Curran v. Arkansas, 15 How. (U. S.) 312; Bacon v. Robertson, 18 id. 480; Coulter v. Robertson, 24 Miss. 278; Gelpcke v. Dubuque, 1 Wall. 175; Welch v. Ste. Genevieve, 1 Dill. (C. C.) 130; Smith v. Appleton, 19 Wis. 468; Blake v. Railroad Co., 39 N. H. 435; 2 Kent's Com. 307.

[3] Wood v. Coosa, etc., R. Co., 32 Ga. 273; Bank of Mo. v. Snelling, 35 Mo. 190; State v. Fourth New Hampshire Turnp. Co., 15 N. H. 162; S. P., Peirce

Sec. 453. **When corporate existence may be inquired into collaterally.** In certain cases, however, it has been held that the corporate existence may be inquired into in a collateral proceeding. Thus, in a proceeding in chancery against a corporation, to set aside a conveyance of real estate alleged to have been obtained by the fraud and misrepresentation of the company in relation to its existence as a corporation, it has been held that the fact whether or not the company ever had a corporate existence so as to enable it to take and hold property may be inquired into; and that if a company professing a corporate existence which it does not possess fraudulently acquires for a particular purpose the property of another, and conveys the same, the sufficiency of such conveyance or transfer may be inquired into collaterally. And that if a corporation by its own acts has ceased to exist, or has suffered or permitted acts which destroy its existence, it is as fully and entirely dissolved as if declared so to be by the judgment of a competent court; that where a corporation has ceased to have an existence as a legal and necessary consequence of certain acts, and a party claims that he has been injured thereby, or that certain benefits result to him therefrom, he may have his remedy without first instituting direct legal proceedings to have the corporation declared dissolved by the court.[1]

v. Somersworth, 10 id. 369, Mechanics' Building Assoc. v. Stevens, 5 Duer, 676; Duke v. Cahawba Nav. Co., 16 Ala. 372; Pearce v. Olney, 20 Conn. 544; Young v. Harrison, 6 Ga. 130; Baker v. Backus, 32 Ill. 79; Williams v. Bank of Ill., 6 id. 667; Brookville, etc., Co. v. McCarty, 8 Ind. 392; Stoops v. Greensburgh Plank. R. Co, 10 id. 47; Bank of Galliopolis v. Trimble, 6 B. Monr. 599; Bank of Mo. v. Merchants' Bank, 10 Mo. 132; Johnson v. Bentley, 16 Ohio, 97; Planters' Bank v. Bank of Alexandria, 10 G. & J. 346; Hamilton v. Annapolis, etc., R. Co., 1 Md. Ch. 107; Cahill v. Kalamazoo Mut. Ins. Co., 2 Doug. 121; Sewall's Falls Bridge v. Fisk, 23 N. H. 171; Towar v. Hale, 46 Barb. 361; McConahy v. Centre Turnp. Co., 1 Penn. 426; 16 S. & R. 140; Dyer v. Walker, 40 Penn. St. 157; Crump v. U. S. Mining Co., 7 Gratt. 352; Arthur v. Commercial Bank, 17 Miss. 394; Bohannon v. Binns, 31 id. 355.

[1] Carey v. The Cincinnati, etc., R. Co., 5 Iowa, 357. See, also, Phillips v. Wickham, 1 Paige, 595; Briggs v. Penniman, 8 Cow. 387; Canal Co. v. Railroad Co., 4 G. & J. 1; Slee v. Bloom, 19 Johns. 456; 2 Kyd on Corp. 467; King v. Passmore, 3 T. R. 244; 1 Rolle's Abr. 514, 4 Com. Dig. 273. In the case first above cited the court say: "It is true that it may not, and cannot thus relieve itself (by merger in a new organization), or perhaps the corporators individually, from responsibility to those to whom it or they may be indebted, but it may by the act become so situated as to be estopped from claiming that it remains undissolved." But see Anderson v. Newcastle R. Co., 12 Ind. 376; Barrett v. Mead, 10 Allen, 337.

CHAPTER XXI.

MANDAMUS.

SEC. 454. The writ, and its functions.
SEC. 455. The writ in this country.
SEC. 456. When issued, discretion of the court.
SEC. 457. Practice and proceedings.
SEC. 458. Office of the writ to compel the performance of duty.
SEC. 459. Concurrence necessary to authorize the issuing of the writ.
SEC. 460. When it will not be issued.
SEC. 461. Resemblance and distinction between, and injunction.
SEC. 462. Against private corporations or its officers.
SEC. 463. Corporations may invoke its aid.
SEC. 464. To compel inspection or delivery of corporate books and papers.
SEC. 465. As a remedy against corporations.
SEC. 466. To whom the writ should be directed, and service.

SEC. 454. **The writ, and its functions.** — A writ of *mandamus* was, at common law, a prerogative writ, issuing from the court of queen's bench, in which, by a fiction of law, the sovereign was considered to be personally present. It commanded a duty to be performed, and was instituted to prevent a failure of justice, as where the law enjoined a duty upon a corporation or a corporate officer, in the performance of which the party claiming the writ was interested, and by the non-performance of which he would be injured, and where the law furnished no other specific or adequate remedy; in which case the writ might be obtained, commanding the party, in the name of the sovereign authority, to perform the duty required by law and particularly pointed out in the writ.[1]

SEC. 455. **The writ in this country.** — The early practice, at common law, relating to this writ and its return, has been considerably changed and regulated by statutory provisions; but where it is regulated by statute the general principles of the common law

[1] Add. on Torts (Wood's ed.), § 1505; Reg. v. Chichester, etc., 29 L. J. Q. B. 23; Briggs, *ex parte*, 28 id. 272; Rex v. Barker, 3 Burr, 1265; Rex v. Norwich, etc., 1 Str. 55; Reg. v. Powell, 1 Q. B. 360; Rex v. Curghey, 2 Burr 782; Reg. v. Hereford, 2 Salk. 701.

relating to it are usually retained. The remedy under statutes can, generally, only be resorted to, as at common law, to prevent a failure of justice, as where there is no other adequate legal remedy, to enforce the performance of the duty, in the performance of which the complaining party is interested.[1]

The writ is issued in the name of the sovereign authority and as will be shown more particularly hereafter, on an application made therefor, under oath, by petition or declaration, setting forth the facts that entitle the party to the writ. All the original advantages and benefits of the writ, as a remedy at common law, are usually provided for by statute; and it issues as a command from sovereign authority.[2]

SEC. 456. **When issued; discretion of the court.** — At common law the writ was not a matter of absolute right, but was only issued at the discretion of the court. Such is still the general doctrine, or at least, even under statutory provisions, the issuing of it rests, in a measure, in the discretion of the court. In order to entitle a party to the writ, it must appear that there is a right to demand it; and especially that there is no other adequate or specific remedy. But if a party shows himself entitled to it, it would be an error for the court to refuse it, which would be corrected on appeal. If, however, it does not appear that the claimant has a legal right to the remedy, it should not be granted; nor should it be granted by consent, if there is reason to believe that there has been a collusion between the parties to secure it.[3]

SEC. 457. **Practice and proceedings.** — The earlier practice to secure the benefit of this remedy was by motion based upon affidavit, for an order to show cause why the writ should not issue. The

[1] Arrington v. Van Houton, 44 Ala. 284; Reading v. Commissioners, 11 Penn. St. 196; People v. Thompson, 25 Barb. 75; Fitch v. McDiarmid, 26 Ark. 482; State v. McCrillus, 4 Kans. 250.

[2] Commonwealth v. Dennison, 24 How. (U. S.) 66; *Ex parte* Conway, 4 Ark. 302; Arberry v. Beavers, 6 Tex. 457; Gilman v. Bassett, 33 Conn. 298; Kendall v. The United States, 12 Pet. 527. But in New York and Illinois it has been held to retain its prerogative character. People v. Board of Met. Police, 26 N. Y. 316; School Inspectors v. The People, 20 Ill. 530; The People v. Hatch, 33 id. 134; City of Ottawa v. The People, 48 id. 240.

[3] State v. Burbank, 22 La. Ann. 379; Parker v. Anderson, 2 P. & H. (Va.) 38; People v. Supervisors, 12 Barb. 217; Trustees v. State, 11 Ind. 205. See, also, Arrington v. Van Houton, 44 Ala. 284; Reading v. Commissioners, 11 Penn. St. 196; People v. Thompson, 25 Barb. 73; Fitch v. McDiarmid, 26 Ark. 482; McBane v. The People, 50 Ill. 503.

hearing on the motion was usually *ex parte*, and without any notice to the party against whom it was sought. The order, if allowed, was served upon the defendant or respondent, and required him to appear at a certain time and show cause against the issuing of the writ, at which time the respondent had an opportunity to be heard, and to controvert the relator's statements by counter affidavits.

The general American practice is to file a petition or complaint, under oath, in the manner of commencing a common suit, asking for the writ, and in which, as at common law, the plaintiff must aver facts sufficient to entitle him to the writ. These may be controverted by the defendant.

The proceeding is in many states like an ordinary civil action, the process only issuing after a hearing of the case and a judgment of the court to that effect; but it is, perhaps, usually provided by statute that the court or judge may make such temporary orders as may be necessary to protect the rights of the plaintiff until the case is finally decided. The practice, however, varies under the statutes of the different states. In some, the practice is to grant an alternative writ on an *ex parte* hearing, if a *prima facie* case therefor is made out, in which case the alternative writ stands in the place of a petition or declaration under the other practice; and in either case they would be subject to a motion to quash, or a demurrer, according to the practice in those respects prevailing in the different states.[1]

SEC. 458. **Office of the writ, to compel the performance of duty.** — It may be affirmed as a principle universally recognized, that the proper office and function of the writ is only to compel the performance of duties that are manifest. Where there is a discretion vested in an individual, officer, or corporation, as to the mode or manner of acting in the performance of a duty imposed by law, the writ cannot be obtained to interfere with that discretion, although it may require it to be exercised.[2]

[1] Moses on Mandamus, 203.

[2] Appling v. Bailey, 44 Ala. 333; Livingston v. Dorgenois, 7 Cranch (U. S.), 577; *Ex parte* Crane, 5 Pet. 190; Matter of Nabor, 7 Ala. 459; Dixon v. Field, 10 Ark. 243; Manor v. McCall, 5 Ga. 522; Weeden v. Town Council, 9 R. I. 128; Mayor v. Rainwater, 47 Miss. 547; People v. Judge, etc., 24 Mich. 408; *Ex parte* Newman, 14 Wall. 152.

And in some cases corporations and officers have been required by *mandamus* to perform their duties as required by law, even where there was another remedy.[1] But this, as will hereafter be noticed, is not the general rule.

Nor will the fact that proceedings in a court of equity have been commenced for the same purpose, or that relief might be obtained in that court, necessarily defeat the right of a party to proceed at law, or furnish a reason for denying the writ.[2] But it will not be issued where the officer, corporation, or tribunal, against which it is claimed, has not the means to do the act required; or to compel the doing of an act, the doing or not doing of which rests in the discretion of the officer, corporation, or tribunal, against which it is claimed; or where they have not the means or power to do the act required;[3] or where the doing of the act is physically or legally impossible; or where the power to perform it is not complete, but depends upon the action or approval of some other person or authority;[4] or where it will involve the party in litigation, the result of which may be doubtful;[5] or where the act would be unlawful.[6]

But, where a discretion is allowed to such officer, corporation, or inferior tribunal, the refusal to exercise such discretion may constitute a proper case for the granting of the writ, which will compel action, but not direct the mode of action or interfere in any manner with the discretion which the party may be authorized to exercise.[7] It may issue to compel a municipal corporation to levy a tax to pay a judgment against it;[8] to

[1] Mansfield v. Fuller, 50 Mo. 338; State v. Bridgman, 8 Kans. 458; Buck v. Lockport, 6 Lans. 253.

[2] People v. Chicago, 53 Ill. 424; Hardcastle v. Maryland, etc., R. Co., 32 Md. 32.

[3] State v. Burbank, 32 La. Ann. 318; *Ex parte* South, etc., v. Railroad Co., 44 Ala. 64; *Ex parte* Farrington, 2 Cow. 407; Black v. Auditor, 26 Ark. 237; State v. Warmoth, 23 La. Ann. 76; Swan v. Gray, 44 Miss. 393; People v. Easton, 13 Abb. Pr. (N. S.) 159; Seymour v. Ely, 37 Conn. 103; Wells v. Stackhouse, 17 N. J. 311; *Ex parte* Decker, 6 Cow. 59; People v. Jameson, 40 Ill 93; St Louis v. Kean, 18 B. Monr. 9; Glasscock v. Commissioners, etc., 3 Tex. 51; Gray v. Bridge, 11 Pick. 189; State v. Lynah, 2 McCord (S. C.), 170.

[4] Ball v. Lappius, 3 Oreg. 55; Silverthorne v. Railroad Co., 33 N. J. 173; Ackerman v. Desha Co., 27 Ark. 457.

[5] State v. Perrine, 34 N. J. 255.

[6] Johnson v. Lucas, 11 Humph. (Tenn.) 306.

[7] McDiarmid v. Fitch, 27 Ark. 106; McMullin v. State, 26 id. 613; State v. Warmoth, 23 La. Ann. 76; East Boston Ferry Co. v. Boston, 101 Mass. 488; Commissioners v. Philadelphia, 3 Brewst. 596; *Ex parte* South, etc., R. Co., 44 Ala. 654; 2 Add. on Torts (Wood's ed.), 721, n. 1.

[8] U. S. v. Keokuk, 6 Wall. 514; Walkley v. Muscatine, id. 481.

compel assessors to correct an erroneous assessment;[1] to compel a railroad company to build and keep in repair bridges where the railroad crosses a highway;[2] to make the crossing of rivers or other water-courses, or perform any acts in the construction of their road, prescribed by the charter, and affecting public or individual rights;[3] to restore an officer to his office when he has been removed therefrom, and the facts do not justify such removal, or are not clearly established;[4] to restore a member of any society to his membership, from which he has been wrongfully expelled;[5] to compel an officer to keep his office at the place designated by law;[6] to compel an officer who by law is required at the close of his duties to return his books to another officer to discharge that duty;[7] to compel the incumbent of an office to deliver up papers, property and insignia of his office to his successor when the claim of the successor thereto is clear;[8] to compel any public officer to discharge a ministerial duty imposed upon him by law;[9] to compel the registrar of deeds to record a deed required to be recorded in his office;[10] to compel a town committee to pay the land damages to land-owners whose land may be taken for a highway;[11] to compel commissioners appointed to assess taxes for a specific purpose to assess such tax;[12] to compel a city council to appropriate money to pay certain expenses authorized by the legislature;[13] to compel the mayor and aldermen, or other board clothed with the requisite power, to carry out the specified purposes and perform the specific duties imposed upon them by law;[14] to compel trustees to admit children, entitled so to do, to attend the public schools;[15] to compel a board of canvassers to meet

[1] People v. Olmsted, 45 Barb. 644.
[2] People v. Troy, etc., R. Co., 37 How. Pr. 427.
[3] State v. North Eastern R. Co., 9 Rich. (S. C.) 247.
[4] Dew v. Judges, 3 H. & M. (Va.) 1; People v. Board of Police, 35 Barb. 531; State v. Common Council, 9 Wis. 254.
[5] Barrows v. Massachusetts Med. Soc., 12 Cush. 402; Roehler v. Aid Soc., 22 Mich. 86. And see People v. Medical Society of Erie, 32 N. Y. 187.
[6] State v. Saxton, 4 Wis. 27.
[7] McDiarmid v. Fitch, 27 Ark. 106.
[8] Walter v. Belding, 24 Vt. 658; Church v. Slack, 7 Cush. 226; Sudbury v. Stearns, 21 Pick. 148.
[9] Ney v. Richards, 15 La. Ann. 603; Page v. Hardin, 8 B. Monr. 648; United States v. County Co., 1 Morris (Iowa), 31.
[10] Strong's Case, Kirby (Conn.), 345.
[11] Minhinnah v. Haines, 29 N. J. L. 388.
[12] People v. Williams, 51 Ill. 57.
[13] Commissioners v. Philadelphia, 3 Brewst. (Penn.) 596.
[14] East Boston Ferry Co. v. Boston, 101 Mass. 488.
[15] State v. Duffy, 7 Nev. 342.

and make complete canvass of all the returns received by them;[1] to compel a judge of an inferior court to sign a bill of exceptions in a case tried before him,[2] or to make up a record and give a judgment thereon, so that a writ of error may be brought;[3] to compel a judge to sign a judgment rendered by his predecessor;[4] to compel a judge to enter a judgment on the report of a referee;[5] to compel a clerk to issue execution on a judgment;[6] and to compel all officers, corporations and inferior tribunals, to perform all ministerial duties and specific acts imposed upon or required of them by law.[7]

SEC. 459. **Concurrence necessary to authorize the issuing of the writ.**— The general rule in reference to *mandamus* is, that to warrant the use of the remedy there must be a concurrence of the following things, namely, that there is no other adequate legal remedy by which the specific performance of the duty, imposed upon the officer, corporation, or inferior tribunal, can be enforced;[8] that the duty can be enforced in a manner not to interfere with the discretion of the party against whom it is sought, when such discretion is vested in such party;[9] and that the plaintiff or relator has a clear legal right to the performance of the duty sought to be enforced.[10]

SEC. 460. **Where it will not be issued.** — We have referred to the circumstances and cases where it would be proper to allow the

[1] Florida v. Gibbs, 13 Fla. 55.

[2] Porter v. Harris, 4 Call. (Va.) 485; People v. Judges, etc., 1 Caines (N. Y.), 511; State v. Hull, 3 Coldw. (Tenn.) 255; People v. Pearson, 3 Ill. 189; *Ex parte* Crane, 5 Pet. 190.

[3] *Ex parte* Bradstreet, 7 Pet. 634.

[4] Life Ins. Co. v. Wilson, 8 Pet. 291.

[5] Russell v. Elliott, 2 Cal. 245.

[6] People v. Loucks, 28 Cal. 68.

[7] Nelson v. Justices, etc., 1 Coldw. (Tenn.) 207; Chase v. Blackstone Canal Co., 10 Pick. 244; Strong, Petitioner, 20 id. 484; People v. Judge, etc., 1 Mich. 359; People v. Green, 64 N. Y. 499; People v. Supervisors, id. 600, where it was held that it should not be issued where the claim is disputed and its validity controverted.

[8] King v. Water-Works Co., 6 Ad. & E. 355; People v. Supervisors, etc., 12 Barb. 27; Tarver v. Commissioners' Court, 17 Ala. 527; Commonwealth v. Rosseter, 2 Binn. 360.

[9] State Nicholson Pavement Co. v. Mayor, 35 N. J. 396; People v. Easton, 13 Abb. Pr. (N. S.) 159; People v. Supervisors, 12 Barb. 217; Railroad Co. v. Clinton Co., 1 Ohio St. 77.

[10] People v. Thompson, 25 Barb. 73. See, also, People v. Head, 25 Ill. 325; People v. Hilliard, 29 id. 418; People v. Corporation of Brooklyn, 1 Wend. 318; People v. Supervisors, 64 N. Y. 600.

writ; but it may be proper to notice those where it may be properly refused. The writ should not be issued to command an act which is physically or practically impossible;[1] or to compel the doing of an act which is prohibited by injunction;[2] or where the defendant has no power to perform the act;[3] or where it would be fruitless and ineffectual;[4] or where the act is not required to be performed as incident to the defendant's duties;[5] or generally to enforce a mere contract,[6] or to compel the doing of an unlawful act;[7] or where there is a lawful reason for not doing the act, as where a party refuses to discharge a mortgage, on the ground that the certificate is insufficient, or to record a deed, not properly acknowledged or attested, or for any cause not entitled to go upon the records;[8] or to admit a person to a medical society, where he would be immediately liable to expulsion;[9] or generally, when the right claimed depends upon holding an act of the legislature unconstitutional and void;[10] or to try the title to an office;[11] or to compel the payment of liquidated damages;[12] or to prevent an anticipated error, or defect of duty.[13]

The remedy by the writ of *mandamus* was strictly a legal remedy in contra-distinction from an equitable one. And it may perhaps be safely affirmed that in modern practice the remedy by *mandamus* can only be used to enforce a legal duty where such duty is free from reasonable doubt and where the rights and in-

[1] Silverthorne v. Warren R. Co., 33 N. J. 173; State v. Perrine, 34 id. 254; State v. Police Jury, 22 La. Ann. 611; Ackerman v. Desha Co., 27 Ark. 457; Ball v. Lappins, 3 Oreg. 55; People v. Salomon, 54 Ill. 39; Commissioners v. Baroux, 36 Penn. St. 262; People v. Supervisors, 15 Barb. 607; Commissioners v. Supervisors, 29 id. 129; People v. Tremain, id. 96; People v. Mayor of New York, 10 Wend. 393.

[2] Railroad Co. v. Wyandot Co., 7 Ohio St. 278; *Ex parte* Fleming, 4 Hill, 581. But see Briggs v. Johnson Co., 6 Wall. 166; *post*, § 505. No.

[3] People v. Supervisors, 15 Barb. 607.

[4] Commissioners v. Supervisors, 29 Penn. St. 121.

[5] State v. County Judge, 1 Iowa, 425; Pickett v. White, 22 Tex. 559.

[6] State v. Zanesville, etc., Co., 16 Ohio St. 278.

[7] Gillespie v. Wood, 4 Humph. 437; Johnson v. Lucas, 11 id. 306; Ross v. Lane, 11 Miss. 695.

[8] People v. Minor, 32 Barb. 612.

[9] *Ex parte* Paine, 1 Hill, 665.

[10] Hall v. Supervisors, 20 Cal. 591; People v. Stephens, 2 Abb. Pr. (N. S.) 348.

[11] People v. Stevens, 5 Hill, 615; People v. Detroit, 18 Mich. 338; Bonner v. State, 7 Ga. 473.

[12] Haygood v. Justices, etc., 19 Ga. 97.

[13] State v. Carney, 3 Kans. 88; State v. Burbank, 22 La. Ann. 298; State v. Dubuclet, 24 id. 16.

terests of the party seeking it are clear, and where the remedy will be effectual, and not of trifling consequence or importance.[1]

SEC. 461. Resemblance and distinction between, and injunction. — This extraordinary process in some respects resembles the writ of injunction. Each are only granted in extraordinary emergencies, and in each the right depends upon the discretion of the court. But while the former is the right arm of courts of law to command a duty to be performed, the latter may be considered the right arm of courts of equity to prohibit unlawful and inequitable acts and things from being done. The former is a positive remedy to redress an existing grievance, while the latter is a negative one, and usually, at least, is only invoked to restrain a future or contemplated injury.[2]

SEC. 462. Mandamus against private corporations or its officers. — We have considered the rules and practices relating to *mandamus*, generally, but it may be proper to consider, especially, some cases where the writ may be used against a private corporation for pecuniary gain, and its officers. In such cases it is an efficient remedy to enforce the performance of duty. Thus, where the charter imposes upon the corporation or some officer the duty of keeping a register and inserting therein the names of the shareholders, this duty may be compelled by *mandamus*.[3] It would also be an appropriate function of the writ to require the directors of a corporation to admit and swear in, as director, one who has been duly elected as such;[4] to require the admission of members to all the privileges of membership;[5] to compel the master of a hospital, incorporated for charitable purposes, to put the common seal to an

[1] Hall v. Crossman, 27 Vt. 297; People v. Tremain, *ante*. A *mandamus* will issue to an inferior court to compel the specific performance of an official duty to which a party is clearly entitled, and which is refused to him, when no other effectual remedy exists, but the particular mode of its exercise must be left free from coercion or restraint. Seymour v. Ely, 37 Conn. 103; McMillen v. Smith, 26 Ark. 613; People v. Judge, etc., 1 Mich. 359.

[2] Board of Liquidation v. McComb, 2 Otto (U. S.), 531.

[3] Norris v. Irish Land Co., 8 El. & Bl. 525; Swan v. North British, etc., Co., 31 L. J. Ex. 425.

[4] 2 Str. 696; 2 Add. on Torts (Wood's ed.), § 1496, n.

[5] Dacosta v. The Russia Co., 2 Str. 783; Rex v. March, 2 Burr. 1000; Reg. v. Saddlers' Co., Bail Court Cas. 183.

instrument of presentation;[1] to place a minister in possession of a pulpit of which he has been unjustly deprived;[2] to compel a railroad or canal company, to build or repair when such duty is imposed upon them by law;[3] and to so grade a railroad track so as to make the streets, alleys and crossings convenient of access and practically useful;[4] to complete its railroad when by law it is required so to do;[5] to pursue the course prescribed by its charter in crossing streams and water-courses, so as not to interfere with navigation;[6] and to compel a cashier of a bank to allow a director to examine the books.[7] And it may be affirmed as a general doctrine of the law that a *mandamus* will issue in all cases to compel a corporation, or any particular officer, to perform any plain duty required by law, in favor of a member or other interested party, whether such duty is imposed either by statute, charter, custom or contract.[8] The general doctrines in relation to the functions of this process and the practice of such cases are elucidated and illustrated by the supreme court of Massachusetts in the case of Strong, Petitioner,[9] although the proceeding in this case related to a municipal corporation. The general principles, relating to the remedy, are applicable to either class of corporations. The petitioner in this case was duly elected county commissioner, but the board of examiners refused to give him a certificate and ordered another election at which another person was chosen. It was held, that *mandamus* would lie to the board of examiners to compel them to give a certificate, notwithstanding he might be compelled to proceed, subsequently, by *quo warranto*, to remove the incumbent of the office, chosen at the second elec-

[1] Reg. v. Kendall, 1 Q. B. 366.

[2] Runkle v. Winemeler, 4 H. & J. 397; People v. Steele, 2 Barb. 377.

[3] People v. Troy, etc., R. Co., 37 How. Pr. 427; Habersham v. Canal Co., 26 Ga. 665.

[4] Chicago, etc., R. Co. v. People, 56 Ill. 365.

[5] State v. Southern Minn. R. Co., 18 Minn. 40.

[6] State v. Northern R. Co., 9 Rich. (S. C.) 247.

[7] People v. Throop, 12 Wend. 183; People v. Mott, 1 How. Pr. 247.

[8] Insurance Company v. Mayor, 23 Md. 296; Chicago, etc., R. Co. v. People, 56 Ill. 365; Indianapolis, etc., R. Co. v. State, 37 Ind. 489; State v. Southern Minn. R. Co., 18 Minn. 40; Burton, *In re*, 31 L. J. Q. B. 62; Rex v. Merchant Tailors' Co., 2 B. & Ad. 115; Rex v. Hotsman of Newcastle, 2 Str. 1223, Reg. v. London, etc., R. Co., 13 Q. B. 998; Reg. v. Wing, 17 id. 645; Reg. v. Gen. Cem. Co., 6 El. & Bl. 415; Norris v. Irish L. Co., 8 id. 512; Reg. v. Midland, etc., R. Co., 15 Ir. Cr. L. R. 525.

[9] Strong, Petitioner, 20 Pick. 494. See, also, Curtis v. McCullough, 3 Nev. 202.

tion. The opinion of the court may be found in the annexed note.[1]

[1] In this case the court say:

"It has been contended for the respondents, that the petitioner has mistaken his remedy, and that *mandamus* will not lie. It was said that his appropriate remedy, if he has any, is by *quo warranto* and not by *mandamus*, or, at any rate, that a *quo warranto* should precede a *mandamus*.

"In every well-constituted government the highest judicial authority must necessarily have a supervisory power over all inferior or subordinate tribunals, magistrates, and all others exercising public authority. If they commit errors, it will correct them. If they refuse to perform their duty, it will compel them. In the former case by writ of error, in the latter, by *mandamus*. And generally in all cases of omissions or mistakes, where there is no other adequate specific remedy, resort may be had to this high judicial writ. It not only lies to ministerial, but to judicial officers. In the former case it contains a mandate to do a specific act, but in the latter only to adjudicate, to exercise a discretion, upon a particular subject. Springfield v. County Commissioners, etc., 10 Pick. 59.

"*Mandamus* is the proper process for restoring a person to an office from which he has been unjustly removed. White's case, 2 Ld. Raym. 959, 1004; Regina v. Baines, 1265; Rex v. Chancellor, etc., of Cambridge, id. 1334; Rex v. London, 2 T. R. 177; Rex v. Field, 4 id. 125. So, also, it lies to admit any one to an office, a service or a franchise from which he is unlawfully excluded. 6 Dane's Abr. 326; Rex v. Surgeons' Company, 2 Burr. 892; Rex v. Barker, 3 id. 1265; S. C., 1 W. Bl. 300; Rex v. Bedford Level Corp., 6 East, 356; Rex v. York, 4 T. R. 699, and 5 id. 66. But it is strongly argued by the respondents' counsel, that inasmuch as the office claimed by the petitioner is now filled by another, who can be removed only by a *quo warranto*, a *mandamus* will not lie. And, certainly, many of the authorities cited by them support the position, that a *mandamus* will not lie to place one in an office actually filled by another, until the incumbent has been removed by a *quo warranto*. The case from 3 Johns. Cas. 79, The People v. New York, is directly in point. The court there say, that 'where the office is already filled by a person who has been admitted and sworn and is in by color of right, a *mandamus* is never issued to admit another person.'—'The proper remedy, in the first instance, is by an information in the nature of a *quo warranto* by which the rights of the parties may be tried.'

"But notwithstanding the respectability and weight of this and the other authorities cited, there certainly are very many the other way; of which the case of Dew v. The Judges of the Sweet Springs District Court, 3 Hen. & Munf. 1, is one. Dew applied for a *mandamus* to the judges, to admit him to the office of clerk. It was objected among other things, that the office was already filled and the only remedy was by a *quo warranto* against the incumbent. But all the judges of the supreme court of appeals of Virginia 'agreed clearly that *mandamus* was the best remedy.' See, also, 6 Dane, 335, and the cases there cited. Mr. Dane, with whom we concur, says: 'On the whole the authorities, English and American, are much in favor of the *mandamus*, especially the more modern cases.' But the cases relied upon by the respondents, if in nowise shaken or overruled, are clearly distinguishable from the one before us, and may stand as sound law, and yet form no obstacle to the petitioner's application. The cases referred to were applications to be *admitted* to an office. The petitioner only seeks for a *certificate* of his election. This, if he obtains it, will not necessarily oust the incumbent or give the petitioner possession of the office. For these purposes he may still have to resort to a *quo warranto*, and possibly before he can get qualified, to another *mandamus*. Two processes may be necessary to enable the petitioner to get possession of the office, the one to establish the legality of his own election, the other to set aside that of the incumbent. They are in-

A judgment creditor of a corporation for pecuniary gain may also compel the corporation, by *mandamus*, to give him an inspec-

dependent of each other. Both might have been applied for at the same time and proceeded *pari passu*. Had the petitioner first caused the incumbent to be removed by a *quo warranto*, still, without the evidence of his own election, he could not enter into the office. So, if a *mandamus* be now issued and complied with, he may still be obliged to resort to other legal proceedings before he can get regularly inducted. The King v. The Mayor etc., of York, 4 T. R. 699, and 5 id. 66, is analogous to the case at bar. An election of a recorder of the city of York was holden, and a certificate was given to Sinclair that he was duly elected. The certificate was to be presented to the king for the purpose of obtaining his approbation of the election. Whithers, the other candidate, applied for a *mandamus* to the corporation to give him a certificate, he having, as he alleged, a majority of the *legal* votes, and his opponent having gained the election only by the votes of persons not qualified to vote. An alternative *mandamus* issued, and afterward, the return to that being insufficient, a peremptory one was ordered. Many other cases to the same effect might be cited, but without a further reference to authorities we are clearly of opinion that a *mandamus* is the proper remedy in this case. We are aware that this is not a writ of right, but grantable at the discretion of the court; Rex v. Commissioners of Excise, 2 T. R. 385; that inasmuch as it is final and cannot be revised, on error or otherwise, the court will proceed with great caution in the exercise of so high a jurisdiction; Selwyn's N. P. (6th ed.) 1062; 1 Chit. Gen. Prac. 791; and that they will not grant it where there is any other adequate specific remedy. 1 Chit. Gen. Prac. 790; Rex v. Bp. of Chester, 1 T. R. 396; Rex v. Abp. of Canterbury, 8 East, 219. But we have no doubt that the present is the proper case for the exercise of our discretion; and that to refuse to grant the writ would be doing palpable injustice to the petitioner and defeating the will of a majority of the voters of the county clearly manifested by their votes, duly and legally evinced before the proper tribunal. No other remedy can reach the error. Although a *quo warranto* might remove the illegal occupant, it could not put the legal officer in his place. No civil action could be maintained by the petitioner, because there is no reason to doubt that the examiners acted *bona fide* and with a sincere desire to perform their duty correctly and legally. And if it could, it would be a very imperfect and partial remedy. It cannot be maintained that the decision of the examiners was an act within their legal discretion. Whether their determination as to the reception or rejection of returns would be deemed a *judicial* decision may well be doubted. But nothing can be clearer than that the counting of the votes, and ascertaining the majority, and giving certificates of the result, are mere ministerial acts. They have no *discretion* in determining which of the candidates shall be elected. It must be the result of pure, inflexible mathematical calculation.

" We are, therefore, all of opinion, that the practitioner, in first seeking to have the validity of his own election inquired into, pursued a wise and legal course, that the proper remedy is by *mandamus*, and that justice clearly requires that such a writ be issued. But the usual, if not invariable practice is, in the first instance, to grant it in the alternative form, giving the examiners a further opportunity either to give the certificate or to return the reasons for refusing it. As the case has been fully heard, they will doubtless adopt the first branch of the alternative, unless facts or reasons occur to them which have not been presented to the court." In Woodstock v. Gallup, 28 Vt. 587, the proper office and practice upon writs of *certiorari* and *mandamus*, in the nature of a *procedendo*, was carefully considered, and the court (REDFIELD, C. J.) say: " The statute, chap. 28, § 5, gives this court power to issue writs of ' error, *certiorari*, *mandamus*, prohibition, and *quo warranto*, and all other writs and processes to courts of inferior jurisdiction, to corporations and individuals,

tion of the register of shareholders;[1] and the right to a transfer of shares on the entry of the probate of the will of a deceased share-

that shall be necessary to the furtherance of justice,' etc.

"The authority thus conferred has been regarded as co-extensive with the authority, in this respect, exercised by the court of king's bench in England, so far as applicable to our condition and wants. And it has generally been the purpose of this court to adopt substantially, the forms used in the king's bench. But the organization and course of proceeding in the superior courts, in reference to actions pending in the inferior courts, is essentially different in England from what it is in this state. As this court is now constituted, we have no general original jurisdiction, either civil or criminal, and no jury trials. And it has never been the practice to bring cases from the inferior courts into this court for trial, which is the principal use of the writ of *certiorari*, in England, where it is more generally confined to criminal proceedings; 4 Blackst. Com. 320–321; 5 Petersdorff's Abr. 114 [149]; 1 Bac. Abr., tit. *Certiorari;* F. N. B. 245. But the cases reported under the title *Certiorari* in 5 Pet. Abr. 149 *et seq.*, shows that the *certiorari* is the substitute for a writ of error, in cases where the proceedings are not according to the course of the common law, and where, by consequence, no writ of error lies; and it extends to such proceedings as laying highways, and other judicial proceedings and matters, in the sessions and other inferior tribunals. But in our practice, we never, upon writs of error, remand a case which is brought into this court and judgment reversed, where further proceedings are required, unless an issue of fact, proper to be tried by the jury, arises, but the case in all other respects is finished in this court. In analogy to this, we have never, that I am aware of, brought up a sessions matter into this court, until it was finished in the inferior court, by a decision upon its merits. Rand v. Townshend, *supra;* Paine v. Leicester, 22 Vt. 44. It seems to us that the more appropriate remedy in cases like the present, where the inferior court disposes of the matters upon some incidental question, and declines to hear the case upon its merits, is a writ of *mandamus*, in the nature of a *procedendo*, as was held by the supreme court of the United States, in Livingston v. Dorgenois, 7 Cranch, 577; 2 Curtis, 677; and as was virtually done in *Ex parte* Crane, 5 Pet. 190, where a *mandamus* was issued to the judge of the circuit court, in the district of New York, requiring him to sign a bill of exceptions. The writ of *mandamus* is the supplementary remedy, so to speak, where the party has a clear right, and no other appropriate redress to prevent a failure of justice. 3 Blackst. Com. 110; 12 Pet. Abr. 438 (309). It is the absence of a specific legal remedy, which gives the court jurisdiction; 2 Sel. N. P., title *Mandamus*. But the party must have a specific legal right. Rex v. Barker, 3 Burrow, 1265; ELLENBOROUGH, C. J., 8 East, 219. The remedy extends to the control of all inferior tribunals, corporations, public officers, and even private persons, in some cases; but more generally the English court of king's bench declines to interfere, by *mandamus*, to require a specific performance of a contract where no public right is concerned. Lord MANSFIELD, in King v. Barker, 3 Burrow, 1265–1270; Angell & Ames on Corp. 761; The King v. The Mayor of Colchester, 2 Term, 260; The King v. Corporation of Bedford Level, 6 East, 356. There is almost no end to the cases upon this subject. They will be found digested, under the title of *Mandamus* in Petersdorff's Abr. and Bacon's Abr.

"The case of Walker v. The London & Blackwall Railway, 3 Q. B. 744, is a case almost precisely in point. The sheriff was required to hold inquisition upon petitions for land damages against railways. Upon the trial of the plaintiff's case, the sheriff directed the jury to find a verdict for the defendants, on the ground that the plaintiff was not entitled to compel the company to purchase his property. The queen's bench, on application for a peremporty *mandamus*, decided that

[1] Reg. v. Derbyshire, etc., R. Co., 3 Ell. & Bl. 784.

holder, on the proper books of the company, may be enforced by *mandamus*.[1] So, in England, it has been held that where a corporate body is clothed with authority to make contracts, and to make calls, from time to time, on the shareholders, and contracts are made with the corporation on the expectation that it will exercise these powers, and it is clear that the corporation is attempting to evade the payment of its debts and satisfaction of a judgment rendered against it, claiming that it has no corporate assets wherewith to satisfy the same, the court will, by *mandamus*, compel it to exercise its powers for the raising of funds to answer the demands of the creditor.[2]

SEC. 463. **Corporations may invoke its aid.** —The writ may also be issued in favor of corporations, in all those cases where a private person might, under the same circumstances, invoke the aid of the same to secure a private and individual right. Thus, a board of supervisors may be compelled by *mandamus* to subscribe for stock in a railroad company, or issue county bonds to such company when, by the provisions of the statute, it is their duty

the writ must issue, requiring the sheriff to proceed and assess the damages, disregarding his former judgment and the verdict of the jury. The form of the writ there issued was a *mandamus*, in the nature of a *procedendo*, as in the present case. But very likely the same thing might only be done by *mandamus*, in regard to those tribunals to which the superior court had power to issue the writ of *certiorari*. For if that were taken away, by statute, it would be regarded as an evasion to accomplish the same thing, more directly, by *mandamus*. Rex v. Justices of Yorkshire, 1 Adol. & El. 563. See *In re* Edmundson, 24 Eng. L. & Eq. 169.

"In Comm., *ex rel.* Hamilton, v. Select and Common Councils of Pittsburg, 34 Penn. St. 496, it is held that a clear legal right in the relator, a corresponding duty in the defendants, and a want of any other adequate and specific remedy, presents a fit case for a *mandamus;* that it is the proper and appropriate remedy to compel a municipal corporation to make provision for the payment of interest, due upon bonds issued by it in payment of a subscription to the stock of a railway company, but the assessment and collection of the necessary taxes — that the writ need not set forth when the principal will become due, nor when or where the interest is to be paid. The averment of the petitioner's ownership is sufficient without setting forth the particulars of his title, and that the defendants have refused to make provision for the payment of the interest without averring a demand."

[1] Reg. v. London, etc., R. Co., 13 Q. B. 998; Reg. v. Wing, 17 id. 645; Reg. v. Gon. Cem. Co., 6 Ell. & Bl. 415; Rex v. Worcester Can Co., 1 M. & Ry. 529.

[2] Rex v. St. Katharine Dock Co., 4 B. & Ad. 360. But a *mandamus* will not issue merely because the execution may produce no fruits. Reg. v. Victoria Park Co., 1 Q. B. 292.

so to do;[1] and it may be used to compel a state treasurer to return municipal bonds, where they have been illegally voted and issued in aid of a railway;[2] to compel the commissioner of a land office to issue certificates for lands to which a railroad corporation is entitled,[3] and it has been held proper to compel county officers to levy tax on a county to satisfy a judgment, in a circuit court of the United States, rendered on the bonds issued, as provided by law, to a railroad corporation, even where, previous to the application to the circuit court for the writ, but subsequent to the rendition of the judgment, the officers have been enjoined by a state court from making such levy.[4]

The decision of the supreme court of the United States, in this case, rested upon the ground that the jurisdiction of the circuit court in the matter was prior to that of the state court; that the jurisdiction of the circuit court continued after the judgment rendered, for the purposes of the *mandamus*, and that it could not be ousted of it, as the powers of the court would be useless if its judgments could not be enforced by the requisite and necessary process.[5] *Mandamus* is also a proper remedy for a private corporation, against persons wrongfully claiming to hold its offices.[6]

SEC. 464. **To compel inspection or delivery of corporate books and papers.** — The remedy by *mandamus* is frequently resorted to, to compel the production, inspection, or surrender, of books and records of private corporations, to persons entitled thereto. Thus, where the term of office of an officer of a private corporation has expired by lapse of time, removal, or otherwise, and his successor, duly appointed and qualified, is entitled to the custody of such books and records, which right is refused by the former officer, it is a proper case for the remedy by *mandamus*, to compel the performance of the duty.[7]

[1] Napa Valley R. Co. v. Napa Co., 30 Cal. 435; California, etc., R. Co. v. Butte Co., 18 id. 671.

[2] Bay City v. State Treasurer, 23 Mich. 499.

[3] Houston, etc., R. Co. v. Commissioner, 36 Tex. 382.

[4] Riggs v. Johnson County, 6 Wall. (U. S.) 166. See, also, Weber v. Lee County, id. 210; United States v. Council of Keokuk, id. 514; Mayor v. Lord, 9 Wall. 409; Supervisors v. Durant, id. 736.

[5] See, also, Wayman v. Southard, 10 Wheat. 23; Suydam v. Williamson, 20 How. 437; 2 Tidd's Pr. 1134.

[6] American Railway Frog Co. v. Haven, 101 Mass. 398; 3 Am. Rep. 377.

[7] American Railway Frog Co. v. Haven, 101 Mass. 398; State v. Goll, 32 N. J. L. 285; St. Luke's Ch. v. Slack, 7 Cush. 226.

And where a stockholder shows a right to the inspection of books and records of a corporation, which right is refused, proceedings by *mandamus* is an appropriate remedy to enforce the right.[1] In this way the cashier of a bank may be compelled to submit the books of the bank to the inspection of one of the directors.[2]

But the aid of this extraordinary remedy will not be granted except some laudable or beneficial purpose is to be subserved. And a member of a private corporation could not claim the benefits of the process merely to gratify malice, or caprice, or an idle curiosity. "And, unless, observes Mr. High, "there is some particular matter in dispute between the members of the corporation, or between the corporation and its individual members, or some specific purpose for which the inspection is necessary, *mandamus* will not lie, since the courts will not permit the use of the writ upon merely speculative grounds, or to gratify a spirit of curiosity."[3]

Nor can a stockholder claim this process to compel the company to keep its books of account at the principal office or place of business of the corporation, unless he shows that some personal injury will result to him by the keeping of the books elsewhere.[4]

And it is not a sufficient answer to a just claim for the inspection of books, that they were purchased by the officer having charge of them with his own private funds, and that the corporation has not refunded the money thus expended, and is indebted to the officer for his salary.[5] Nor is it good ground for refusing a *mandamus*, that the books are books of account between the corporation and its stockholders, and that, therefore, these should be regarded as confidential; or that they might be used for purposes not strictly proper, or such as would justify the issuing of the writ.[6] A judgment creditor is entitled to the

[1] People v. Throop, 12 Wend. 183; People v. Pacific Mail Steamship Co., 50 Barb. 280.

[2] People v. Throop, *supra*.

[3] High on Extra. Leg. Rem., § 310. See, also, People v. Walker, 9 Mich. 328; Hatch v. City Bank, 1 Rob. (La.) 470; King v. Merchant Tailors' Co., 2 B. & Ad 115. In such a case there should also be a demand of the papers and records at a proper time and place and of the proper party. People v. Walker, 9 Mich. 328; King v. Wilts. Canal Co., 3 Ad. & E. 477.

[4] Pratt v. Meriden Cutlery Co., 35 Conn. 36.

[5] State v. Goll, 32 N. J. L. 285.

[6] People v. Pacific Mail Steamship Co., 50 Barb. 280.

process where he is entitled to an execution against stockholders who have not paid their shares, and an inspection of the books of the corporation becomes necessary in order to ascertain who are the shareholders and the amount of the subscription remaining unpaid, and which inspection is refused.[1] And it is also an appropriate remedy, where it is the duty of an officer of a corporation, on the presentation of a certificate of sale of shares of capital stock under execution, to give the purchaser evidence of title to the stock thus purchased, which he refuses to do;[2] or, where it is the duty of the corporation to enter upon the proper books of the company, a record of the probate of the will of a deceased stockholder, showing the disposition of his stock, and the corporation refuses so to do;[3] and, especially, where it is the duty of a corporation to record all the names of the owners of the stock, and it refuses so to do.[4]

Sec. 465. **As a remedy against railroad corporations.** — The remedy, by *mandamus*, against railroad corporations is frequently appropriate; and it may be invoked to compel a railroad corporation to carry out or execute the objects and purposes for which it was created.

Thus, it has been held proper to compel a railroad company to transport passengers to a particular terminus, in accordance with the requirements of its charter;[5] to compel the replacement of certain portions of its track, taken up, where its charter provided that the public should have the right to use the railway upon the payment of certain rates of fare and freight;[6] to compel the company to have damages for the taking of lands under the right of eminent domain, assessed in the manner provided by law, and in the absence of other specific remedy, to compel payment of the amount of damages awarded;[7] to construct and keep in repair

[1] Queen v. Derbyshire, etc., R. Co., 3 El. & Bl. 784.

[2] Bailey v. Strohecker, 38 Ga. 259.

[3] Rex v. Worcester, etc., Co., 1 M. & R. 52.

[4] Norris v. The Irish Land Co., 8 El. & Bl. 512. But see where it will not be issued for this purpose, State v. Warren, etc., Co., 32 N. J. L. 439.

[5] State v. The Hartford, etc., R Co. 29 Conn. 538.

[6] King v. Swem, etc., R. Co., 2 B. & A. 644.

[7] Queen v. Eastern Counties R. Co., 2 Q. B. 347; King v. Water-Works Co., 6 Ad. & E. 355; Queen v. Trustees, etc., 8 id. 439; Queen v. Deptford Pier Co., id. 910.

bridges as required by their charters, and so as not to obstruct the navigation of streams ;[1] to maintain all necessary crossings and culverts at the crossing of streets and alleys of a city, and make them safe and convenient for passage as provided by the conditions of the right of way, granted by the city to the company ;[2] and in general to compel them to construct and maintain suitable crossings and approaches where the railroad crosses public streets and highways.[3]

SEC. 466. **To whom the writ should be directed — service.** — It is not within the scope of this treatise to consider the practice and proceedings, in *mandamus*, generally. Special treatises are devoted to the treatment and elucidation of the law in general relating to it. We will, however, observe that the writ should be directed to and served upon the person who is shown to be delinquent. If the proceeding is to obtain the books and records of the corporation or their inspection, the proper course would seem to be, to direct the process to the person in whose custody they are, even though they may be held by the party as the officer or agent of the corporation, as cashier, treasurer or secretary.[4] The common-law mode of service was by delivering a copy of the writ, and showing the respondent the original ;[5] but the mode of service in this country is generally regulated by statutes in the various states.

[1] State v. Wilmington Bridge Co., 3 Harr. (Del.) 312 ; State v. North-eastern R. Co., 9 Rich. 247; Habersham v. Savannah, etc., Canal Co., 26 Ga. 665.

[2] Indianapolis, etc., R. Co. v. State, 37 Ind. 489.

[3] People v. Chicago, etc., R. Co., 57 Ill. 436 (1873); Indianapolis, etc., R. Co. v. State, 37 Ind. 489.

[4] People v. Throop, 12 Wend. 183.

[5] Reg. v. Birmingham, etc., R. Co , 1 El. & Bl. 293; 22 L. J. Q. B. 195 ; Corner's Crown Pr. 227.

CHAPTER XXII.

TAXATION.

SEC. 467. Taxation defined and necessity of.
SEC. 468. Should be equitably imposed.
SEC. 469. Difficulty attending taxation of railroad property.
SEC. 470. Statutes regulating taxes on corporate property.
SEC. 471. Id.
SEC. 472. What corporate property is taxable — double taxation.
SEC. 473. Corporate property subject to and exempt from taxation.
SEC. 474. Exemption statutes sustained.
SEC. 475. Indications that the doctrine will not be extended.
SEC. 476. Where corporate property is used in different states.
SEC. 477. Exemption of United States stocks.
SEC. 478. Exemption from taxation under the national banking law.
SEC. 479. Municipal subscriptions in aid of corporate enterprises, and taxation therefor.

SEC. 467. **Taxation defined — necessity of.** — Taxation is defined as "the act of laying a tax, or imposing taxes, on the subjects of a state by government, or on the members of a corporation or company by the proper authority."[1] Tax is any contribution imposed by the government upon individuals or corporations for the use of the state, and embraces tolls, tribute, impost, duty, custom, excise, aid or supply. But in a stricter or more limited sense, it is a levy or sum imposed by the state upon persons, or real or personal property and occupations, as distinguished from customs, duties and excises.[2] Taxation is one of the fiscal prerogatives and inherent powers of sovereignty, and essential to the maintenance of government and the security of the rights of the citizen.[3]

SEC. 468. **Should be equally imposed.** — The wisdom of legislators is taxed in adopting means to levy and collect taxes in such

[1] Webst. Dic.

[2] 2 Bouv. L. Dic., tit. Taxes; 2 Burr. L. Dic., tit. Tax; Story on the Const. 14. Mr. Burrill observes in reference to the word "tax" as follows: "Literally, or according to its derivation, an imposition laid by government upon individuals, according to a certain order and proportion." Burr. L. Dic., tit. Tax.

Mr. Cooley defines taxes as "the enforced proportional contribution of persons and property, levied by the authority of the state for the support of the government, and for all public needs." Cooley on Taxation, 1.

[3] 1 Bl. Com. 307 *et seq.*

a manner as that the burden shall be borne equally and equitably by all citizens.[1] The usual method of imposing this burden is to require the assessment of taxes according to the value of property, and to levy and collect for governmental purposes annually a certain per centum of the valuation of all property, real and personal, owned by individuals, partnerships or corporations.[2] It will be manifest that corporations should contribute to this public demand as well as individuals, as they, equally with natural persons, enjoy the benefits of civil government and the protection thus afforded to its pecuniary interests, and they should be subject to the same burdens, unless they are exempted therefrom by the provisions of their charter.[3] The legislature of the state, as the representative of the people, is supreme, unless restrained by provisions of its constitution, and may exempt corporations or individuals, or their property, from taxation; but where there is no such exemption, all owners of property should equally contribute, according to its value, to the necessities of the government.[4]

[1] 2 Kent's Com. 250. Perfect equality and uniformity is practically impossible. Kirby v. Shaw, 19 Penn. St. 258; Mill. Pol. Econ., B. 5, chap. 2, § 2; Lowell v. Oliver, 8 Allen, 247; Ould v. Richmond, 23 Gratt. 464; Allen v. Drew, 44 Vt. 174.

[2] The constitution of Massachusetts provided that the legislature might "impose and levy reasonable duties and excises upon any produce, goods, wares, merchandise and commodities whatsoever, brought into, produced, manufactured or being within the same." Under this constitutional provision the supreme court of that state held that the legislature might impose a specific tax on the stock of an incorporated bank. Portland Bank v. Apthorp, 12 Mass. 252. See, also, Commonwealth v. Lowell Gas Co., 12 Allen, 75; Commonwealth v. Hamilton Man. Co., id. 298; Same v. New England Slate Co., 13 id. 391; Same v. Carey Improvement Co., 98 Mass. 19; Attorney-Gen. v. Bay State Min. Co., 99 id. 148; Oliver v. Liverpool Ins. Co., 100 id. 531; 10 Wall. 566; Boston R. Co. v. Commonwealth, 100 Mass. 399; Dudley v. Jamaica Aqueduct Pond Co., id. 183. And in Massachusetts domestic corporations cannot be required to pay a portion of all dividends of the non-resident owners into the treasury of the state where there is no such tax on the dividends of resident owners. Oliver v. Washington Mills, 11 Allen, 268.

[3] Harvard College v. Aldermen of Boston, 104 Mass. 470; Troy v. Mutual Bank, 20 N. Y. 387; People v. Brooklyn, 4 Comst. 419; Bulowe v. Charleston, 1 N. & McC. 527; Shitz v. Berks Co., 6 Penn. St. 80; Dunnell Man. Co. v. Pawtucket, 7 Gray, 277. But the right to exempt corporate property from taxation has been questioned on the ground of public policy, and that it is inimical to the security of government. The reasons would be equally applicable to all exemptions. Thorpe v. The Rutland, etc., R. Co., 27 Vt. 140; Brewster v. Hough, 10 N. H. 138.

[4] See West River Co. v. Dix, 6 How. (U. S.) 507; Bank of Commerce v. New York, 2 Black, 720; Duer v. Small, 4 Blatchf. 263, where it is held that the power extends to all the property and business within the state. People v. Pacheco, 27 Cal. 175; De Pauw v. New

SEC. 469. **Difficulty attending taxation of railroad property and interests.** — Some difficulty has been experienced, relating to the taxation of corporate property, and especially the property of railroad corporations. The operation of railroads usually requires the use and ownership of property in various localities, not only within the territory of the sovereignty of its creation, but frequently in different states. Besides, the capital stock of such corporations may be held not only by the corporation itself, but by its numerous members, having a residence and domicile in various localities, not only within the state where the corporation is created, but in other states. Where shall such property and interests be taxed? If it may be assessed and taxed according to value in more than one place for the same purpose, the burdens of taxation would fall unequally. And in the case of specific taxation of property or business, the tax should be imposed so as to fall equally upon all persons, whether natural or artificial.[1]

SEC. 470. **Statutes regulating taxes.** — The difficulty attending the imposition of taxes for various municipal and state purposes upon railroads, on account of the various kinds of property and interests held by them in various localities and states, has secured statutory regulation on the subject in most, if not all, the states and territories of the Union; and the constitutions of various states guard the rights of citizens against legislative abuse, in this respect.[2]

But in the absence of statutory regulations, how and where shall corporate property of a railroad company be valued and

Albany, 22 Ind. 204; Union Co. v. Bordelon, 7 La. Ann. 193; Williams v. Detroit, 2 Mich. 560; Mechanics' Bank v. Debolt, 1 Ohio St. 591; 2 Kent's Com. 331 and notes.

[1] The tax levied by a city must not be oppressive or unequal. Columbia v. Beasly, 1 Humph. (Tenn.) 232; Hamilton v. St. Louis County Court, 15 Mo. 3. But in Arkansas, where the constitution provided for equal taxation according to the value of property, it was held that this provision related to ordinary state and county taxation, and did not affect a statute authorizing a special tax on alluvial lands for building a levee. McGehee v. Mathis, 21 Ark. 40. See, also, State v. Lathrop, 10 La. Ann. 398; State v. Ogden, id. 402; Yeatman v. Crandall, 11 id. 220; Jamison v. New Orleans, 12 id. 346; Selby v. Levee Coms., 14 id. 434; Lowell v. Oliver, 8 Allen, 247; State v. Warren County, 19 Penn. St. 258; Slaughter v. Commonwealth, 13 Gratt. 767; Kneeland v. Milwaukee, 15 Wis. 454; Fire Department v. Helfenstein, 16 id. 136.

[2] See 2 Kent's Com. 331 *et seq.*

taxed? Shall the land and improvements thereon, including the erections and fixtures, and rolling stock, be assessed and taxed as an entirety or separately? Should they be taxed at the location of the general office or place of business of the corporation, or in the various places where they may be located or used?

As to the mode of taxing the property of railroad companies, it has been ably maintained, that the only just and equitable way is that based upon profits. In the case of *Paine* v. *Wright and The Indianapolis & Bellefontaine R. Co.*,[1] the court say:

"Railroads have contributed more to the facilities of intercourse, the interest of agriculture, to build up towns and extend our inland commerce, than all other improvements. But in the construction of these works, heavy expenditures have been incurred, and large debts contracted by way of loans of money and otherwise, so that the companies are ill able to bear the pressure of a heavy taxation. The expense of running the cars, making repairs and meeting contingencies is very great; and when to this shall be added the interest on debts incurred, little or no profit can be realized to the stockholders for some years after the road is in operation. Lands, of necessity, are often received in payment of stock. These lands are taxed the same as lands held by an individual, on the plausible ground that the lands of a corporation should be taxed the same as the lands of an individual. But these lands are never held by the corporation for the purposes of culture, but to be converted into money, or for the occupancy of the road. They do not, in general, as the lands of an agriculturist, afford a profit by an increase of value. But the corporation is taxed for the lands, and also for the structures made by borrowed capital. This, in effect, is a taxation on borrowed money, and is an addition to the interest. In all enterprises intimately connected with the public interest, such as railroads, banks, etc., which require a large investment of capital, there is no mode of taxation so equal or just as a tax upon the profits. Such investments are subject to many contingencies which do not affect real estate. No estimate can show the expenditure required on a railroad, nor the losses of a bank. As common carriers, the railroad is responsible for injuries done to persons and property,

[1] 6 McLean, 395. See, also, People v. Mayor of Brooklyn, 6 Barb. 209.

through the neglect or want of skill in its agents; and experience has shown that juries are inclined most liberally to compensate all who suffer by finding liberal if not extravagant damages. Banks are liable to imposition and losses, through the failures of borrowers, and counterfeit notes and drafts, which no one can foretell. These casualties place at greater hazard the moneys invested in railroads and banks than in real estate; and although these establishments may be owned by individuals, yet they are so intimately connected with the public interest and welfare, that stockholders are distinguishable from the owners of other property."

Sec. 471. The statutes of the various states usually provide for the levy of general taxes on personalty at the place of residence of the owner, and of real estate in the city or county where located. In the case of ownership of railroad corporations, the place of residence of the corporation within the state sometimes becomes an important question for the purposes of taxation. For such purposes what is the *situs* of the company? The same question is frequently presented in relation to the jurisdiction of the courts, based upon the residence of the corporate person. In the case of the *Connecticut and Passumpsic Rivers Railroad Company* v. *Cooper*,[1] the supreme court of Vermont, by Redfield, J., in discussing the question of the *situs* of the company, observe: "We think it safe, as a general rule, to say that a railway company, if it have any place of residence, must be limited to the range of its legally defined route. This is certainly in analogy to all other corporate companies. They are held to have their *situs* or residence where their principal business is transacted. This is so in the case of banks, manufacturing companies, and many others; and, although these companies may, for some purposes, transact business out of the range of their ordinary locality, as they sometimes do even in other states and countries, they are still regarded as having a fixed *situs* at the place where their principal business is done."

[1] 30 Vt. 476. See, also, The People v. Peirce, 31 Barb. 138; South-western R. Co. v. Paulk, 24 Ga. 356; and the English doctrine in Garton v. Great Western R. Co., E. B. & E. 837. See, also, Sangamon & Morg. R. Co. v. County of Morgan, 14 Ill. 163; State v. Illinois Cent. R. Co., 27 id. 64; Mohawk & Hud. R. Co. v. Clute, 4 Paige, 384.

And in New Hampshire it has been held that if a railroad corporation is located in another state, and all its property is taxed in such state, the same as the property of natural persons, a stockholder in New Hampshire would not be liable to be taxed for his stock in the company.[1]

SEC. 472. **What corporate property is taxable; double taxation.** — The real estate of a corporation is, as we have seen, generally taxable in the localities where it is located, but the personal property at the place of the location of its principal place of business.[2] This is in accordance with the doctrine of general application to natural persons. Natural persons are generally subject to taxation on personalty, at the place of their domicile. But it has been maintained that the capital stock of a corporation cannot be assessed and taxed, and also the real and personal property in which the capital or its proceeds have been invested, unless expressly so provided by statute, as this would be a double taxation. Mr. Cooley, on this subject, observes:

"But the general principle would undoubtedly be that all the property of a corporation, like that of a natural person, would be liable to an *ad valorem* tax, imposed upon property, and that where the term 'citizen' or 'inhabitant,' is used in the revenue laws of the various states, it includes private corporations for pecuniary gain."[3]

SEC. 473. **Corporate property and interests subject to, and exempt from tax.** — It is perhaps a general rule, that the capital stock of a corporation, if taxable at all, is taxable at the place where the principal office or place of business is located;[4] and its real estate, where it

[1] Smith v. Exeter, 37 N. H. 556. Rails, sleepers, bridges, etc., of a railroad corporation, together with the easement in the lands, within the limits of a railroad, are real estate. Providence, etc., R. Co. v. Wright, 3 R. I. 459. See, also, Louisville, etc., R. Co. v. Commonwealth, 7 B. Mon. 160.

[2] Sangamon, etc., R. Co. v. County, 14 Ill. 163; State v. Ill. Cent. R. Co., 27 id. 64; Mohawk, etc., R. Co. v. Clute, 4 Paige, 384. The principle is the same where the jurisdiction of the court over the person depends upon the question of residence. See Androscoggin, etc., R. Co. v. Stevens, 28 Me. 434; Bristol v. Chicago, etc., R. Co., 15 Ill. 436; Rhodes v. Salem T., etc., R. Co., 98 Mass. 95.

[3] Cooley on Tax.; Bangor, etc. R. Co. v. Harris, 21 Me. 533. But see Cumberland, etc., R. Co. v. Portland, 37 id. 444.

[4] Mohawk, etc., R. Co. v. Clute, 4 Paige, 384; *ante*, § , and note 3.

is located.[1] In *Conwell* v. *Town of Connersville*,[2] the supreme court of Indiana held that a corporation can be taxed in the place where the corporation is located, only upon the corporate property as distinguished from the interests of the individual stockholders therein; and that, as to these interests, they were taxable in the places where the stockholders respectively resided.[3] And it has been held in New Hampshire, that wood, timber, logs and lumber, and other articles or materials, distributed along the line of a railway, for use in the construction and operation of the road, should be treated as a part of the road, and taxed in the same manner.[4]

But, as before observed, corporate taxation, and the place and parties to be taxed, are now usually matters of statutory regulation subject to constitutional provisions, and the decisions in reference to these questions in the various states are generally on the construction of these statutes and constitutional provisions.

Thus, it has been held that a general statutory provision, exempting corporate property from taxation, embraced only such property as was essential in the execution of its purposes, and did not cover property held by the corporation, as a mere convenience;[5] that the statute or charter of a railway corporation, exempting its stock from taxation, covers gross income;[6] that where a specific mode of taxation is provided in the charter, this is exclusive of all other modes;[7] that where there is a provision for the payment of a tax on condition, as that the corporation shall pay a certain tax when their net profits shall reach a certain amount, it is exclusive of liability for taxes under other circum-

[1] Carbon Iron Co. v. Carbon County, 39 Penn. St. 251. In this case it was held that the tax for state purposes required to be paid at the auditor-general's office was a tax on the corporate franchise, and not intended as an exemption from ordinary taxation.

[2] 15 Ind. 150.

[3] See, also, McKeen v. County of Northampton, 49 Penn. St. 519; Whitesell v. Same, id. 526; Bridgeport v. Bishop, 33 Conn. 187; Union Bank v. State, 9 Yerg. 490.

[4] Fitchburg R. Co. v. Prescott, 47 N. H. 62.

[5] In Pennsylvania, see Lehigh Co. v. Northampton, 8 W. & S. 334; Railway v. Berks Co., 6 Penn. St. 70; Carbon Iron Co. v. Carbon County, 39 id. 251; Lackawanna Iron Co. v. Luzerne County, 42 id. 424. Massachusetts, Worcester v. Western R. Co., 4 Metc. (Mass.) 564; Meeting House v. Lowell, 1 id. 538. New Jersey, State v. Mansfield, 3 N. J. L. 510; Gardner v. State, 1 id. 557.

[6] State v. Hood, 15 Rich. L. 177.

[7] New York and Erie R. Co. v. Sabin, 26 Penn. St. 242; Iron Bank v. Pittsburgh, 37 id. 340.

stances, and that taxes can only be imposed when the condition is fulfilled;[1] that a general exemption of property of the corporation, but subjecting the stock in the hands of stockholders to taxation exempts the surplus funds and lands of the corporation;[2] that exemption of capital stock exempts property of the company, necessary to carry on business;[3] that where the charter of a railroad corporation subjects it to certain specified taxation, but exempts it from all further or other taxes or imposts, this exempts the company perpetually from all taxation except that specified;[4] that where a railroad corporation, exempt from taxation, consolidates with another not enjoying that immunity, such property of the consolidated corporation is subject to taxation;[5] and that, where statute provided that a railroad corporation should be exempt from taxation, except that portion of the permanent and fixed works of the company as is within the state, and that as regards such works no greater tax should be levied than in proportion to the general taxes throughout the state at the same time, it was held that such portion of the fixed works of the company as was within the state was still subject to general taxation for state and county taxes.[6] But in all such cases the exemption may be repealed by the legislature, under a special reservation of the right so to do, or under a general statutory right, to alter or amend charters.[7]

Under the statute of New York, of 1855, which provided that all persons and associations doing business in the state and non-resident thereof should be assessed and taxed on all sums invested in any manner in said business, the same as if they were residents, it was held that the statute applied to corporations, and that a foreign insurance company was liable on securities, deposited under the requirements of a statute with the comptroller of the state, for the security of the policy-holders of the insurance company.[8]

[1] State v. Minton, 23 N. J. L. 529.

[2] State v. Tunis, 23 N. J. L. 546.

[3] The Rome R. Co. v. Rome, 14 Ga. 275.

[4] State Bank v. Knoop, 16 How. 386; Woolsey v. Dodge, 6 McLean (C. C.), 142.

[5] Philadelphia & Wilmington R. Co. v. State of Md., 10 How. (U. S.) 376; Baltimore v. Baltimore & O. R. Co., 6 Gill, 288. See, also, In the Delaware Railroad Tax, 18 Wall. 206.

[6] Philadelphia, etc., R. Co. v. Bayless, 2 Gill, 355.

[7] Morris, etc., R. Co. v. Miller, 31 N. J. L. 521; Jersey City, etc., R. Co. v. Jersey City, id. 575; Commonwealth v. Fayette County R. Co., 55 Penn. St. 452.

[8] International Life Ins. Co. v. Commissioners of Taxes, 10 Penn. St. 442.

And under a statute of Massachusetts it was held that a manufacturing corporation was taxable for its real estate in the place where it was located, but that its personal property about its manufactory should be assessed to the several individual members, they being liable to be taxed for their several shares in such property.[1]

The decisions in these cases are perhaps important only as recognizing the general doctrine that parties should not be twice taxed on the same property; that it cannot be assessed first as the property of the corporation, and, secondly, as the property of the member.[2]

On the subject of taxes on corporations Mr. Cooley observes: "These are imposed in so many forms that an enumeration is difficult. The following may be mentioned: 1. A specific tax on the franchise. 2. A tax on the property by valuation. 3. A tax on the capital stock. 4. A tax on the business done. 5. A tax on dividends or on profits. Sometimes the franchise is taxed and also the capital stock or the property, but to tax the capital stock and also the property in which the capital is invested would be imposing the burden twice on the same property, and, consequently, unjust, if not illegal."[3]

Sec. 474. **Exemption statutes sustained.**— Notwithstanding public policy would seem to disfavor exemption from taxation, statutes providing therefor are, perhaps, generally, held to be legal by the courts.

And if a compensation has been paid to the state for the franchise of a corporation and in lieu of taxes on the franchise, this exempts the franchise from future taxation by the state, but it would not exempt the corporate property from taxation.

On this question the supreme court of the United States say: "A franchise for banking is in every state of the Union recognized

[1] Salem Iron Factory v. Danvers, 10 Mass. 514; Amesbury Woolen Man. Co. v. Inhabitants of Amesbury, 17 id. 461.

[2] See, also, Smith v. Burley, 9 N. H. 423; Bank of Cape Fear v. Edwards, 5 Ired. 516; Gordon v. Baltimore, 5 Gill, 231; Cases of Taxation, 12 G. & J. 117.

[3] Cooley on Taxation, 392. Under a statute of Massachusetts (1864, chap. 208, § 5), it was held that a corporation for making and supplying gas may be taxed in the town or city where it carries on its business, for all excess of the value of its stock over the value of its real estate and machinery otherwise taxable. Commonwealth v. Lowell Gas-light Co., 12 Allen, 75. See, also, Same v. Hamilton Man. Co., id. 298.

as property. The banking capital attached to the franchise is another property, owned in its parts by persons, corporate or natural, for which they are liable to be taxed as they are for all other property, for the support of the government."[1]

The general rule is, that a legislative body cannot limit the legislative powers of its successors, and that all laws passed by the one may be changed or abolished by another; and it is only when the revenue acts of such a body rise to the character of a contract, as where stipulations are made in the charter of a corporation, in relation to taxation of the corporate franchise or property, and which charter is accepted, that the state can be bound thereby. In such cases the provision would constitute a part of the contract, and the corporation would be protected against the imposition of more taxes, under the provision of the constitution of the United States, inhibiting the states from passing any law impairing the obligation of contracts.

Thus, where the incorporating act of a bank required the payment of a tax of twenty-five cents annually, on each share of stock, in lieu of all tax and bonus, this was held to be a contract between the state and the stockholders, and that such stock in the hands of a stockholder was exempt from other taxation.[2]

Taxation, being essential to the maintenance of a government, the right of the legislature as its representative to levy taxes, it has been held by some of the state courts, cannot with safety be abridged or taken away by any stipulation or contract on its part.[3]

But the general doctrine we have stated is supported by the current of judicial decisions in the states, and by the uniform

[1] 1 Gordon v. Appeal Tax Court, 3 How. (U. S.) 133. But see, qualification or limitation of the doctrine, Baltimore v. Baltimore R. Co., 6 Gill, 288; Cases of Taxation, 12 Gill & J. 117; State v. Powers, 4 N. J. 400; Gordon v. The Appeal Tax Court, and Cheston v. Same, 3 How. (U. S.) 133; Branch State Bank v. Knoop, 16 id. 386; Jefferson, etc., Bank v. Skelly, 1 Black, 436; Hardy v. Waltham, 7 Pick. 108.

[2] Johnson v. Commonwealth of Ky., 7 Dana, 338; Central R., etc., v. Georgia, 2 Otto (U. S.), 665. See, also, same doctrine in Bank of Ill. v. The People, 6 Ill. 304; Home of the Friendless v. Rouse, 8 Wall. 430; McGee v. Mathis, 4 id. 143; Gordon v. The Appeal Tax Court, 3 How. (U. S.) 133; Pacific R. Co. v. Maguire, 20 id. 36. But see Trask v. Maguire, 18 id. 391.

[3] Brewster v. Hough, 10 N. H. 138; Mott v. Penn. R. Co., 30 Penn. St. 9; Sandusky Bank v Wilbor, 7 Ohio St. 481; Skelly v. Jefferson Branch Bank, 9 id. 606. But see Iron City Bank v. Plattsburg, 37 Penn. St. 340.

decisions of the federal courts.[1] In *Home of the Friendless* v. *Rouse*,[2] the question presented to the supreme court of the United States was, whether a statute to incorporate a charitable institution, and declaring that the property of the corporation should be exempt from taxation, and that a statutory provision existing at the time, that every charter of incorporation should be subject to alteration, suspension or repeal, at the discretion of the legislature, should not apply to such corporation, became, after the corporation had organized under such act, such a contract as prevented the state from subsequently imposing taxes upon it, and whether a statute, afterward passed by the legislature taxing its corporate property, was a violation of the contract, and, therefore, void.

The court say : —

"The validity of this contract is questioned at the bar, on the ground that the legislature had no authority to grant away the power of taxation. The answer to this position is, that the question is no longer open for argument here, for it is settled by the repeated adjudications of this court that a state may, by contract based upon a consideration, exempt the property of an individual or corporation from taxation either for a specified period or permanently. And it is equally well settled that the exemption is presumed to be on sufficient consideration, and binds the state if the charter containing it is accepted."[3]

The doctrine of exemption by virtue of provisions contained in a charter was extended by the supreme court of the United States in *Washington University* v. *Rouse*.[4] In this case, a charter was

[1] But in McCulloch v. State of Maryland, 4 Wheat. 316, MARSHALL, C. J., in his opinion, maintains that the general doctrine of exemption did not prohibit states from taxing the real property of the Bank of the United States, in common with other real property within the state, nor the interests which a citizen of the state may hold in the bank, in common with other property of the same character throughout the state. But it was subsequently held in Weston v. The City of Charleston, 2 Pet. (U. S.) 449, that owners of government stock of the United States were not liable to state taxation upon the stock.

[2] 8 Wall. 430.

[3] See, also, New Jersey v. Wilson, 7 Cranch, 164; Gordon v. Appeal Tax Court, 3 How. (U. S.) 133; Piqua Bank v. Knoop, 16 id. 369; Ohio L. & T. Co. v. Debolt, id. 416; Dodge v. Woolsey, 18 id. 331; Mechanics and Traders' Bank v. Thomas, id. 384; Mechanics and Traders' Bank v. Debolt, id. 380; McGee v. Mathis, 4 Wall. 143.

[4] 8 Wall. 439. See, also, Jefferson v. Skelly, 1 Black, 436; Illinois Cent. R. Co. v. County, 17 Ill. 291; O'Donnell v. Bailey, 24 Miss. 386; Seymour v. Hartford, 21 Conn. 481. But exemptions are temporary.

granted by the legislature of Missouri to the Washington University, as an institution of learning. The court was divided in this case as well as the case from which we have just quoted from the opinion. Mr. Justice DAVIS, in delivering the opinion, refers to the two cases, and says: "The object of the charter in the one case was to promote a charity, in the other, to encourage learning. Both were public objects of advantage to the country, and which every government is desirous of promoting. Whether the endowment of a charity is of more concern to the state than the endowment of a university for learning, is within the power of the legislature to determine. If the legislature has acted in a manner to show that it considered the objects equally worthy of favor, it is not the province of this court to pass on the wisdom of the measure."

But these cases were decided by a divided court, CHASE, C. J., and MILLER and FIELD, JJ., dissenting[1] The dissenting opinion by Mr. Justice MILLER maintains the general doctrine of the inviolability of contracts made between a state and its citizens, where it is within the scope of the power of the state to act in the matter, and the contract is not against general public policy. But he held that a legislative body, sitting under a state constitution of the usual character, had no right to sell, give, or bargain away forever, the taxing power of the state; that this power is absolutely essential to the perpetuity of the government; that no civilized government has ever existed that did not depend upon taxation in some form for the continuance of its existence; and that to allow legislators to deprive the state forever, of the power of taxation, would render it possible for them to destroy the government they were appointed to serve.[2]

unless contained in the charter. Southern R. Co. v. City of Jackson, 38 Miss. 334; Ohio Trust Co. v. Debolt, 16 How. (U. S.) 416; Christ's Church v. Philadelphia, 24 id. 300. Under a general exemption of corporate property from taxation, corporate stock in the hands of stockholders is exempt. Gordon v. Appeal Tax Court, 3 How. (U. S.) 133. So is the franchise. Wilmington R. Co. v. Reid, 13 Wall. 264. And an exemption for a term of years is valid. Raleigh, etc., R. Co. v. Reid, id. 269.

[1] And in the Delaware Railroad tax, 18 Wall. 206, it was held that an act of the legislature, consolidating two railroads, which provided that the new corporation should pay a certain tax annually to the state, did not amount to a contract so as to prevent a subsequent legislature from imposing a further and a different tax.

[2] The argument against the power of the legislatures to exempt property perpetually from taxation, in any case,

If the question was an open one, there would be little doubt that the enlightened judicial mind, seeing the danger to the permanency of governments, by contracts, which take from them the right of taxation, would declare such contracts void as

is so well presented by the learned judge that I insert it in this note. He says: "It is the settled doctrine of this court that it will, in every case affecting personal rights, where, by the course of judicial proceedings, the matter is properly presented, decide whether a state law impairs the obligation of contracts; and if it does, will declare such law ineffectual for that purpose. And it is also settled beyond controversy that the state legislatures may, by the enactment of statutes, make contracts which they cannot impair by any subsequent statutes. It may be conceded that such contracts are so far protected by the provisions of the federal constitution that even a change in the fundamental law of the state, by the adoption of a new constitution, cannot impair them, though provisions to that effect are incorporated in the new constitution. We are also free to admit that one of the most beneficial provisions of the federal constitution, intended to secure private rights, is the one which protects contracts from the invasion of state legislation. And that the manner in which this court has sustained the contracts of individuals has done much to restrain the state legislatures, when urged by the pressure of popular discontent, under the sufferings of great financial disturbances, from unwise as well as unjust legislation. In this class of cases, when the validity of the contract is clear, and the infringement of it by the legislature of a state is also clear, the duty of this court is equally plain. But we must be permitted to say that in deciding the first of these propositions, namely, the validity of the contract, this court has in our judgment been at times quick to discover a contract that might be protected, and slow to perceive that what are claimed to be contracts were not so, by reason of the want of authority in those who profess to bind others. This has been especially apparent in regard to contracts made by the legislatures of states, and by those municipal bodies to whom, in a limited measure, some of the legislative function has been confided. In all such cases, where the validity of the contract has been denied, the question of the power of the legislative body to make it necessarily arises; for such bodies are but the agents and representatives of the greater political body — the people, who are benefited or injured by such contracts, and who must pay, when any thing is to be paid, in such cases. That every contract fairly made ought to be performed is a proposition which lies at the basis of judicial education, and is one of the strong desires of every well-organized judicial mind. That, under the influence of this feeling, this court may have failed in some instances to examine, with a judgment fully open to the question, into the power of such agents, is to be regretted, but the error must be attributed to one of those failings which leans to virtue's side. In our judgment, the decisions of this court, relied upon as conclusive of these cases, belong to the class of errors which we have described.

"We do not believe that any legislative body, sitting under a state constitution of the usual character, has a right to sell, to give, or to bargain away forever, the taxing power of the state. This is a power which, in modern and political societies, is absolutely necessary to the continued existence of every such society. While under such forms of government the ancient chiefs or heads of the government might carry it on by revenues owned by them personally, and by the exaction of personal services from their subjects, no civilized government has ever existed that did not depend upon taxation in some form for the continuance of that existence. To hold, then, that any one of the annual legislatures can, by contract, deprive the state forever of the power of taxation, is to hold that they can destroy the government which they are

against public policy, and the security and existence of the government, which is paramount to every other political or social object. No agent or representative of the sovereign authority should be permitted, in any manner, to contract or stipulate to suspend perpetually so important a function of government. If the power is recognized in any case, it may be extended to divest the government of all power in this respect; and this possibility is a sufficient reason for denying the power in any case.

SEC. 475. **Indications that the doctrine will not be extended.** — After the many protests against the doctrine of exemption of corporations for pecuniary gain from taxation, based upon the stipulations contained in charters, or general statutes providing for their incorporation, there seems to be a disposition of some of the courts to limit rather than extend it. In a recent case in the supreme court of the United States the facts were as follows: The act of incorporation of a railroad company exempted the capital stock of the company, and further provided that the works, fixtures, workshops, warehouses, vehicles of transportation and other appurtenances of the company, should be exempt from taxation for ten years after the completion of the road

appointed to serve, and that their action in that regard is strictly lawful.

"It cannot be maintained that this power to bargain away for an unlimited time the right of taxation, if it exists at all, is limited in reference to the subjects of taxation. In all the discussions of this question, in this court and elsewhere, no such limitation has been claimed. If the legislature can exempt in perpetuity one piece of land, it can exempt all land. If it can exempt all land, it can exempt all other property. It can as well exempt persons as corporations. And no hindrance can be seen, in the principle adopted by the court, to rich corporations, as railroads and express companies, or rich men, making contracts with legislatures, as they best may, and with such appliances as it is known they do use, for perpetual exemption from the burdens of supporting the government. The result of such a principle, under the growing tendency to special and partial legislation, would be to exempt the rich from taxation, and cast all the burden of the support of the government, and the payment of its debts, on those who are too poor or too honest to purchase such immunity. With as full respect for the authority of former decisions, as belongs from teaching and habit to judges trained in the common-law system of jurisprudence, we think that there may be questions touching the powers of legislative bodies, which can never be finally closed by the decisions of a court, and that the one we have here considered is of this character. We are strengthened in this view of the subject, by the fact that a series of dissents from this doctrine, by some of our predecessors, shows that it has never received the full assent of this court; and referring to those dissents for more elaborate defense of our views, we content ourselves with thus renewing the protest against a doctrine which we think must finally be abandoned."

within the limits of the state. The company was also authorized to borrow, from time to time, such sums of money as might be required to construct the road, and to execute bonds and mortgages therefor on the property and franchise of the road. By virtue of such authority money was borrowed and mortgage bonds given therefor; and the company having failed to pay its bonds, held by the plaintiff, judgment was obtained thereon, and a foreclosure of the mortgage was had, and the property and franchise were sold to satisfy the same, and purchased by the plaintiff in error. This action was brought by the state of Louisiana against the purchaser to recover certain taxes.

The question presented was, whether, under the circumstances, the property and franchise was exempt from taxation. The court held, that immunity from taxation did not accompany the property in its transfer to the purchaser; that exemption in such cases was a personal privilege; that the franchises of a railroad corporation are rights or privileges which are essential to the operations of the corporation, such as to run cars, to take tolls, to appropriate earth and gravel for the bed of its road, or water for its engines, and without which its roads and works would be of little value; but, that immunity from taxation was not itself a franchise of a railroad corporation which passes as such to a purchaser of its property.[1] Mr. Justice Field, in delivering the opinion of the court, observes: "The question presented is, whether, under the designation of franchise, the immunity from taxation upon its property possessed by the railroad company accompanied the property, in its transfer to the defendant, and whether that immunity was a mere personal privilege of the company, and, therefore, not transferable to others? The supreme court of the state took the latter view, and held that the exemption did not attach to the property of the corporation so as to follow it into the hands of third parties. In this view we agree with the state court. The greater part of the property outside of the capital stock was liable to constant waste, deterioration and destruction, and, according to the ordinary course of business, would be disposed of by the company as new works were required. It can

[1] Morgan v. Louisiana, 3 Otto, 217.

hardly be supposed that the legislature intended that the exemption should follow the fixtures and vehicles of the company after they had passed out of its control, so that, wherever found, the power of taxation could not touch them; or that workshops and warehouses, ceasing to be the property of the company, should carry to its subsequent possessors a privilege intended only for the benefit of the corporation. The language of the statute requires no such construction, and intendments will not be indulged to enlarge the operation of a clause restraining the exercise of a sovereign attribute of a state."[1] In Illinois, where it was provided, in a general act for the incorporation of banks, for the assessment of taxes in a certain way, this was held not to be a contract on the part of the government with the corporations organized under it, so as to prevent the mode of assessment from being changed by subsequent legislation.[2] So, where the legislature of South Carolina, in 1851, chartered a railroad company, but did not exempt its property from taxation, but in 1855 amended the charter, in which it exempted its property from taxation, and in 1863 it passed an act, conferring all the powers, rights, and privileges formerly granted to such company, to another corporation, which had been incorporated in 1849 to build a railroad, it was held by the supreme court of the United States, that the act of 1863 exempted the last-named road from taxation, and that the legislature could not repeal such act so as to subject it to taxation.[3] In this case the court observed: "It is said that the power of taxation is among the highest powers of a sovereign state; that its exercise is a political necessity, without which the state must cease to

[1] See, also, The Delaware Railroad Tax, 18 Wall. 206.

[2] Bank of the Republic v. County of Hamilton, 21 Ill. 53.

[3] Humphrey v. Pegues, 16 Wall. 244. But where an act of the legislature provided that the real property of an existing hospital should be thereafter exempt from taxes, and this was repealed by a subsequent act, the last act was held to be constitutional. Christ's Church v. Philadelphia, 24 How. 300; 24 Penn. St. 229. And where the statute of a state offered a premium of ten cents a bushel on every bushel of salt, made from water obtained by boring within the state, and exemption from taxation of the land used for such purposes, it was held that it was not an irrevocable contract, but a mere act of general legislation, and that it could be repealed at the will of the legislature, even after parties relying upon the provisions of the act had entered upon the business, which it was the purpose of the act to encourage. Salt Co. v. East Saginaw, 13 Wall. 373.

exist; and that it is not competent for one legislature, by binding its successors, to compass the death of the state. It is too late to raise this question in this court. It has been held that the legislature has power to bind the state in relinquishing its power to tax a corporation. It has been held that such a provision in the charter of an incorporation constitutes a contract, which the state may not subsequently impair." [1]

Sec. 476. **Where corporate property is used in different states.** — It is common for corporate property to be used for corporate purposes, in two or more states, and the question has arisen in such cases as to the place where it should be assessed and taxes be levied and collected. If it is subject to taxation for general purposes in more than one place, the corporation owning it would be subject to an unequal and unjust burden, which the law should not allow. This question was recently presented to the supreme court of the United States, in the case of *St. Louis* v. *The Ferry Co.*[2]

The defendants were a corporation organized under the laws of Illinois, and their ferry boats ran from that state across the Mississippi river to St. Louis, remaining there only a short time each trip; and the question was whether the city of St. Louis, by virtue of a statute of the state, authorizing the city to tax all property within it, could tax such property. The supreme court of the United States held that the defendants were not liable to taxation in St. Louis, although the boats were enrolled in that city in pursuance of the navigation acts, and the company had an office there, and the principal officers lived there, and the directors held their meetings there, and the corporate seal was kept there. The court say: "In the jurisprudence of the United States, a corporation is regarded as in effect a citizen of the state which created it. It has no faculty to migrate. It can exercise its franchises extra-territorially, only, so far as may be permitted by the policy or comity of other states. * * * When there is jurisdiction of neither

[1] See, also, Providence Bank v. Billings, 4 Pet. 514; Dartmouth College v. Woodward, 4 Wheat. 518; The Binghamton Bridge, 3 Wall. 51.

[2] 11 Wall. 423.

the person nor property, the imposition of a tax would be *ultra vires* and void. If the legislature of a state should enact that the citizens or the property of another state or country should be taxed in the same manner as the persons and property within its own limits, and subject to its authority, or in any other manner whatsoever, such a law would be as much a nullity, as if in conflict with the most explicit constitutional inhibition. Jurisdiction is as necessary to valid legislation as to valid judicial action."

SEC. 477. **Exemption of United States stocks, etc.**—Within the scope of the powers conferred upon congress, by the provisions of the federal constitution, the acts of congress are the supreme law of the land, and with the exercise of such express powers as are conferred upon that body, or such as are incidental to the proper execution of such powers, the legislatures of the several states have no right to interfere. Under the powers thus conferred upon congress they possess the exclusive right of legislation in relation to various matters within even the territorial limits of the states.

In *McCulloch* v. *State of Maryland*,[1] it was observed by Chief Justice MARSHALL, in relation to this subject, as follows:

"If any one proposition could command the universal assent of mankind, we might expect it would be this, that the government of the Union, though limited in its powers, is supreme within its sphere of action. This would seem to result necessarily from its nature. It is the government of all; its powers are delegated by all; it represents all, and acts for all. Though any one state may be willing to control its operations, no state is willing to allow others to do so.

"But the question is not left to mere reason; the people have in express terms decided it, by saying: 'the constitution and laws of the United States made in pursuance thereof shall be the supreme law of the land,' and by requiring that the members of the state legislatures and the officers of the executive and legislative departments of the states shall take the oath of fidelity to it. The government of the United States, then, though limited in its powers, is supreme, and its laws when made in pursuance of the con-

[1] 4 Wheat. 316.

stitution form the supreme law of the land, 'any thing in the constitutions or laws of the states to the contrary notwithstanding.'

"Among the enumerated powers we do not find that of establishing a bank or creating a corporation. But there is no phrase in the instrument, which, like the articles of confederation, excludes incidental or implied powers, and which requires that every thing granted shall be expressly and minutely described. * * * It cannot be denied that the powers given to the government imply ordinary means of execution. That, for example, the power of raising revenue, and applying it to national purposes, is admitted to imply the power of conveying money from place to place, as the exigencies of the nation may require, and of employing the usual means of conveyance. * * * The government which has a right to do an act and has had imposed on it the duty of performing that act, must, according to the dictates of reason, be allowed to select the means; and those who contend that it may not select any appropriate means, that one particular mode of effecting the object is excepted, take upon themselves the burden of establishing that exception. * * *

"After the most deliberate consideration it is the unanimous and decided opinion of the court that the act to incorporate the Bank of the United States is a law made in pursuance of the constitution and is a part of the supreme law of the land. The branches, proceeding from the same stock, and being conducive to the complete accomplishment of the object are equally constitutional. * * * That the power of taxation is one of vital importance; that it is retained by the states; that it is not abridged by the grant of a similar power to the government of the Union; that it is to be concurrently exercised by the two governments, are truths which have never been denied. But such is the paramount character of the constitution, that its capacity to withdraw any subject from the action of even this power is admitted. The states are expressly forbidden to lay any duty on imports or exports, except what may be absolutely necessary for executing their inspection laws. If the obligation of this prohibition must be conceded — if it may restrain a state from the exercise of its taxing power on imports and exports, the same par-

amount character would seem to restrain, as it certainly may restrain, a state from such other exercise of this power, as in its nature incompatible with, and repugnant to, the constitutional laws of the Union. * * *

"That the power of taxing it [the bank] by the states may be so exercised as to destroy it is too obvious to be denied. But taxation is said to be an absolute power, which acknowledges no other limits than those expressly prescribed in the constitution, and, like sovereign power of every other description, is trusted to the discretion of those who use it.

"But the very terms of this argument admit that the sovereignty of the state, in the article of taxation itself, is subordinate to, and may be controlled by, the constitution of the United States. How far it has been controlled by that instrument is a question of construction. In making this construction no principle, not declared, can be admissible, which would defeat the legitimate operations of the supreme government. It is of the very essence of supremacy, to remove all obstacles to its action within its own sphere, and so to modify every power vested in subordinate governments, as to exempt its own operations from their own influence. * * *

"The people of a state give to their government a right of taxing themselves and their property, and as the exigencies of government cannot be limited, they prescribe no limits to the exercise of this right, resting confidently on the interest of the legislator and on the influence of the constituents over their representatives to guard them against its abuse.

"But the means employed by the government of the Union have no such security, nor is the right of a state to tax them sustained by the same theory. Those means are not given by the people of a particular state, not given by the constituents of the legislature, which claim the right to tax them, but by the people of all the states. They are given by all for the benefit of all, and upon theory, should be subjected to that government only, which belongs to all."[1]

[1] See, also, Weston v. City of Charleston, 2 Pet. 449; Osborn v. United States Bank, 9 Wheat. 732; Bank of Commerce v. New York City, 2 Black, 620.

In the case of *Bank of Commerce* v. *New York City*,[1] the question involved was whether the stock of the United States, constituting most of the capital stock of the bank, incorporated under the laws of New York, was subject to a tax according to its value, under the revenue laws of that state. On this question Mr. Justice NELSON, after referring to various authorities bearing upon the question and sustaining exemption in such cases, observes:

"The conclusive answer to the attempted exercise of state authority in all these cases is, that the exercise is in derogation of the powers granted to the general government, within which, it is admitted, it is supreme. That government whose powers, executive, legislative or judicial, whether it is a government of enumerated powers like this one or not, are subject to another distinct government, cannot be sovereign or supreme, but subordinate and inferior to the other. This is so palpable a truth that argument would be superfluous. Its functions and means essential to the administration of the government, and the employment of them, are liable to constant interruption and possible annihilation. The case in hand is an illustration. The power to borrow money on the credit of the United States is admitted. It is one of the most important and vital functions of the general government, and its exercise a means of supplying the necessary resources to meet exigencies in times of peace or war. But what avail is the function or the means, if another government may tax it at discretion. It is apparent that the power, function, or means, however important and vital, are at the mercy of that government. And it must be always remembered, if the right to impose a tax at all exists on the part of the other government, 'it is a right which in its nature acknowledges no limits.' And the principle is equally true of every power or function of a government subject to the power or control of another."

It will be apparent that it is difficult, in the somewhat complicated structure of our state and national governments, to fix the exact boundary line between the two; and this question of taxation has been one of the prolific sources of embarrassment in this respect. Their powers are so closely and intimately

[1] 2 Black (U. S.), 620.

related, that where the limits of the one is fixed the other ends, and the whole complicated structure may become harmonious, only, by application of the fundamental principle that each is sovereign and independent within the proper sphere and scope of its powers, and may exercise the functions of sovereignty as provided by the federal constitution, in the one case, and subject only to the limitations of the constitutions of the respective states, and of the federal constitution, in the other.

SEC. 478. **Exemption from taxation under the national banking law.**— The national banking law, on the subject of taxation, provides as follows: —

"SEC. 5214. In lieu of all existing taxes, every association shall pay to the treasurer of the United States, in the months of January and July, a duty of one-half of one per centum each half-year upon the average amount of notes in circulation, and a duty of one-quarter of one per centum, each half-year, upon the average amount of its deposits, and a duty of one-quarter of one per centum, each half-year, on the average amount of its capital stock, beyond the amount invested in United States bonds. * *

"SEC. 5219. Nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the state within which the association is located; but the legislature of each state may determine and direct the manner and place of taxing all the shares of national banking associations located within the state, subject only to the two restrictions, that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such state, and that the shares of any national banking associations owned by non-residents of any state shall be taxed in the city or town where the bank is located, and not elsewhere. Nothing herein contained shall be construed to exempt the real property of associations from either state, county, or muni-

cipal taxes, to the same extent, according to its value, as other real property is taxed." [1]

Under the foregoing provisions it was held, in *Van Allen* v. *The Assessors*,[2] that the shares of banking associations, organized under said act and in the hands of the shareholders, were subject to taxation by the state in which the association is formed, subject to the restrictions mentioned, although the whole capital of such association may be invested in national securities, which are declared by an act of congress to be "exempt from taxation by or under state authority." [3]

SEC. 522. **Municipal subscriptions in aid of corporate enterprises and taxation therefor.**— According to many authorities, the public interest is so much identified with railroad and other corporate enterprises, as to authorize a subscription of towns, cities or counties, to the corporate stock, by virtue of a power conferred upon them by statute, especially where such roads are constructed through, or such enterprises are organized and carried on within, such towns, cities or counties.[4] Subscriptions made by the proper agents of such towns, cities or counties, duly authorized therefor, have, perhaps, usually been held binding upon the municipal corporations whom they represent; and if the authority to make such subscriptions on the part of such corporations exists, it would be the manifest duty of the proper authorities, in the absence of other provisions, to levy and collect a special tax for the purpose

[1] Rev. Stat. U. S. 1874; Act June 3, 1864.

[2] 3 Wall. 573.

[3] See, also, the same doctrine in Lionberger v. Rouse, 9 Wall. 468; National Bank v. Commonwealth, id. 353; Mintzer v. County of Montgomery, 54 Penn. St. 139; Monroe Co. Sav. Bank v. Rochester, 37 N. Y. 365; Society, etc., v. Coite, 6 Wall. 594; Provident Inst. v. Massachusetts, id. 611. But see Bank Tax Case, 2 id. 200. United States certificates of indebtedness, under the act of March 1, 1862, are not exempt from taxation. People v. Hoffman, 37 N. H. 9. And under the act of February 25, 1862, legal tender notes are not exempt. People v. Board of Supervisors, 37 N. Y. 21.

[4] Sharpless v. The Mayor of Philadelphia, 21 Penn. St. 147; Moers v. The City of Reading, id. 188; Cincinnati, etc., R. Co. v. Commissioners, 1 Ohio (N. S.), 77; Case v. Dillon, 2 id. 607; New Orleans, etc., R. Co. v. Succession, etc., 8 La. Ann. 341, Slack v. Maysville, etc., R. Co., 13 B. Monr. 1; Covington, etc., R. Co. v. Kenton Co. Ct., 12 id. 144; Talbot v. Dent, 9 id. 526; Justices, etc., v. Turnpike Co., 11 id. 145; Shaw v. Dennis, 10 Ill. 405; People v. Mayor, etc., 4 N. Y. 419; Bridgeport v. Housatonic R. Co., 15 Conn. 475; Stein v. City of Mobile, 24 Ala. 591; Nichol v. Nashville, 9 Humph. 252; Augusta Bank v. Augusta, 49 Me. 507; Parker v. Scogin, 11 La. Ann. 629.

of meeting such obligations. But, on this subject, there has been a great diversity of views and decisions, and in the same states, the decisions have fluctuated.[1]

Mr. Redfield, on this subject, observes: "It is not now important to discuss the principle of these conflicting decisions, since the tide of judicial opinion is almost all in one direction and not in concurrence with the latter determinations. For ourselves, we are free to confess that we could never comprehend the basis upon which so many able jurists in this country have professed to perceive, clearly, the reason for giving municipal corporations the power to become stockholders in railway companies. We have always felt that it was one of those cases in jurisprudence where the wish was father to the thought."[2]

And Mr. Dillon says: "The most noted of extraordinary powers conferred upon municipal corporations is the authority to aid in the construction of railways by subscription to their stock, and taxing the inhabitants or the property within their limits to pay the indebtedness thereby incurred. Legislation of this kind had its origin within a period comparatively recent, and has been more or less resorted to, at times, by almost every state in the Union. As it is the author's duty, in a work of this character, to state what the law is, rather than what, in his judgment, it ought to be, he feels constrained to admit that a long and almost unbroken line of judicial decisions in the courts of most of the states, has established the principle that, in the absence of special restrictive constitutional provisions, it is competent for the legislature to authorize a municipal or public corporation to aid, in the manner above indicated, the construction of railways running near, or to, or through them. * * * Notwithstanding the opinion of so many learned and eminent judges, there remain serious doubts as to the soundness of the principle, viewed simply as one of constitutional law. Regarded in the light of its effects, however, there is little hesitation in affirming that this invention

[1] See, against this doctrine, Stokes v. County of Scott, 10 Iowa, 166; State of Iowa v. County of Wapello, 13 id. 388; Griffith v. Commissioners, etc., 20 Ohio, 609; Pennsylvania R. Co. v. City of Philadelphia, 47 Penn. St. 189; Taylor v. Newberne, 2 Jones' Eq. 141; St. Louis v. Alexander, 23 Mo. 483; Thorpe v. Rutland, etc., R. Co., 27 Vt. 140; Thompson v. Lee County, 3 Wall. 327. The contrary authorities will be cited hereafter.

[2] 1 Redf. on Rail., § 230, note 1.

to aid the enterprises of private corporations, has proved itself baneful in the last degree." [1]

Notwithstanding the reasons adduced against the doctrine, based upon fundamental principles of the law, the authorities have constantly been multiplying in support of the right of municipal corporations to subscribe for the stock, and thereby aid in the construction of railroads and other corporate enterprises.

"The tide rolls on with the general approbation, and the only hope now is to be able to fix such limits to railway extension, by means of municipal aid, that the entire property of the country may not be thrown into public and official administration by means of the unlimited power of extension of taxation." [2]

Where there is no special constitutional limitation on the subject, and authority is conferred for this purpose, on the town, city, or county, it seems settled by at least the greatest number of authorities, that they may subscribe for railroad or other corporate stock, borrow money to pay for the same, and levy a tax to pay the subscription or repay the loan; and that this authority may be exercised without a submission of the matter to the citizens, or an approval of the same by a popular vote.[3]

The consideration of this question, in this connection, is pertinent and important only as it involves the question of taxation. It is evident that if a municipal corporation may subscribe for, or borrow money to pay a subscription to, a railroad or other private

[1] Dill. on Mun. Corp., § 104.

[2] 1 Redf. on Railw., § 230. See, however, recent decisions against the legality of municipal aid in such cases. Fisk v City of Kenosha, 26 Wis. 23; English v. Chicot Co., 26 Ark. 454; Hanson v. Vernon, 27 Iowa. 28; Whiting v. Sheboygan R. Co., 25 Wis. 167; People v. Salem, 20 Mich. 452; Thorpe v. Rutland, etc., R. Co., 27 Vt. 140; State v. Conlin, id. 318; Lincoln v. Smith, id. 328; State v. Parker, 26 id. 357; Walker v. City of Cincinnati, 21 Ohio St. 14; Beckel v. Union Tp., 15 id. 437.

[3] In addition to the authorities already cited in support of this view, see, also, Thomson v. Lee County, 3 Wall. 327; Buty v. City of Muscatine, 8 id. 575; Pendleton v. Army, 13 id. 297, where it was also held that long acquiescence in the validity of bonds issued by a municipal corporation would raise a presumption that there was a compliance with the requisite formalities in issuing them. See, also, the same general doctrine in New York. People v. Mitchell, 35 N. Y. 551; White v. Syracuse & U. Q. Co., 14 Barb 559; Copes v. Charlestown, 10 Rich. (S. C.) 491; Clark v. City of Rochester, 24 Barb. 446; Grant v. Courter, id. 232; Benson v. Mayor of Albany, id. 248; Starin v. Genoa, 23 N. Y. 439; Winn v. Macon, 21 Ga. 275, where it was held that the legislature might ratify a subscription made without authority. And the same doctrine was held in Butler v. Dunham, 27 Ill. 474, and Commonwealth v. Perkins, 43 Penn. St. 400.

corporation, the money requisite to liquidate such indebtedness must be raised in the usual way, by a levy and collection of taxes therefor. And such levy and collection would not only be a duty imposed upon the proper officers of the corporation, but the obligation in this respect could be enforced by *mandamus*.[1]

[1] State v. City of Davenport, 12 Iowa, 335; Von Hoffman v. City of Quincy, 4 Wall. 535; Supervisors v. United States, id. 435; City of Galena v. Amy, 5 id. 705; Butz v. City of Muscatine, 8 id. 575; Mayor v. Lord, 9 id. 409. See *Mandamus*.

CHAPTER XXIII.

NEGLIGENCE AND WRONGFUL ACTS OF AGENTS OR SERVANTS.

Sec. 480. Corporate liability for negligence and wrongful acts of agents and servants.
Sec. 481. Illustration of the rule.
Sec. 482. The maxim *qui facit per alium facit per se*, especially applicable to corporations.
Sec. 483. Cases illustrating the maxim.
Sec. 484. Id.
Sec. 485. Id.
Sec. 486. Id.
Sec. 487. Real test of liability.
Sec. 488. Implied powers of agents.
Sec. 489. Matters to be considered in determining whether the act is within the scope of the agent's authority.
Sec. 490. Contractor's and contractee's liability.
Sec. 491. Liability in case of a nuisance attaches only when a nuisance necessarily results.
Sec. 492. Corporations bound to the same degree of care as natural persons — degree of care.
Sec. 493. Not insurers against all casualties.
Sec. 494. Care required of railroad corporations in relation to engines, cars, track, etc.
Sec. 495. Id.
Sec. 496. Instances of negligence where the corporation was held liable.
Sec. 497. Duty of railroad corporations.
Sec. 498. Id.
Sec. 499. Injuries received in getting upon a train.
Sec. 500. Accommodations — contributory negligence.
Sec. 501. Duty to passengers.
Sec. 502. Id.
Sec. 503. Liability for willful wrongs of agents.
Sec. 504. Liability of railroad corporations for delay in running trains.
Sec. 505. Liability for negligence in constructing or repairing railroads, or for nuisances.
Sec. 506. Engines and machinery.
Sec. 507. Application of the maxim *sic utere tuo ut alienum non lædas*.
Sec. 508. Contributory negligence.
Sec. 509. Consequential damages.
Sec. 510. Injury to persons and property by running of trains.
Sec. 511. Trespassers on the tracks.
Sec. 512. Different rule as to children.
Sec. 513. Injuries to animals.
Sec. 514. Id.

SEC. 515. Instances of liability for other torts of servants.
SEC. 516. Liability to indictment.

SEC. 480. **Corporate liability for negligence and wrongful acts of agents or servants.**—A corporation being an artificial person must necessarily discharge its functions through agents and servants, and as a result, is necessarily and justly held chargeable for the *manner* in which their duties are discharged. It is liable for the negligent or tortious acts of its servants or agents within the scope of their authority, upon the same grounds, in the same manner and to the same extent as an individual, and that, too, without any reference to the objects or purposes for which it was established or the powers conferred or restrictions imposed upon it by law. The defense of *ultra vires* does not generally apply in cases of tort.[1] The law never authorizes an unlawful act. A corporation has no authority from its charter or from the general law to publish

[1] "Corporations," says the court in Bissell v. Southern, etc., R. R. Co., 22 N. Y. 258, "like natural persons have the capacity to do wrong; *and when, in their dealings, they break over the restraint imposed upon them, an exemption from liability cannot be claimed on the mere ground that they have no power to act.*" Green v. London, etc., Omnibus Co., 7 C. B. (N. S.) 290; Limpus v. General Omnibus Co., 1 H. & C. 528. Where a corporation intrusts an agent with a duty that does or *may* involve the use of force and personal violence to others, if the servant, in the discharge of such duty, goes beyond the proper limits in its use, the corporation is answerable for the consequences. Hewett v. Swift, 3 Allen (Mass.), 420; Moore v. Fitchburgh R. Co., *ante*. So where the act *may* result in a nuisance. Rex v. Medley, *ante;* Ellis v. Sheffield Gas Co., 18 Jur. 146. The liability of a corporation for the wrongful acts of its agents stands upon the same ground as that of a natural person, and it is liable for the consequences of wrongful acts committed by them, within the scope of their authority, however foreign to its nature, or however much the same may be in excess of its granted powers. N. Y. & New Haven R. Co. v. Schuyler, 34 N. Y. 30; Kneass v. Schuylkill Bank, 4 Wash. (U. S. C. C.) 9; Goodspeed v. East Haddam Bank, 22 Conn. 530. The ground upon which this liability is predicated is, that, as a corporation necessarily acts by agents, by committing *any* authority to them, it must be made chargeable for any abuse of the power so intrusted to them, rather than an innocent party, nowise in fault. Thus, where the officers of a corporation issue fraudulent stock and permit its transfer, it is liable to the party receiving such stock, precisely the same as it would be if the stock was genuine. *The transaction is fraudulent* and is the cause of the injury and the basis of recovery. The court, under such circumstances, will not hear the party upon its assertion that the act is *ultra vires*. N. Y. & N. H. R. Co. v. Schuyler, *ante;* Aldrich v. Press Printing Co., 9 Minn. 133; Whitfield v. S. E. R. Co., 31 L. T. 113; Terre Haute Gas Co. v. Teel, 20 Ind. 131; Taylor v. Boston Water Power Co., 12 Gray (Mass.), 415; Moore v. Fitchburgh R. Co., 4 id. 465; St. Louis, etc., R. Co. v. Dalby, 19 Ill. 353; Foote v. Cincinnati, 9 Ohio, 31; Duncan v. Surrey Canal, 3 Starkie, 50; Stevens v. Boston, etc., R. Co., 1 Gray, 277; Rex v. Medley, 6 C. & P. 292; State v. Vt. Cent. R. Co., 27 Vt. 103; Hewett v. Swift, 3 Allen, 420; Thayer v. Boston

a libel, to commit an assault, or to erect or maintain a nuisance, yet it may, through its servants or agents, commit these, as well as other offenses, and be answerable therefor, either civilly or criminally, the same as an individual would be.[1] They are liable for the *torts* of their agents as well as for their contracts,[2] but in order to establish a ground of recovery the act must be one that was within the scope of the authority of such agent or servant.[3]

Sec. 481. **Illustration of the rule.** — Thus, if an agent of the corporation commits an assault, unless it was fairly within the scope of his duty, the corporation cannot be held chargeable therefor, as where an officer of a bank assaults a person who goes there upon business;[4] but if the duty committed to the agent was such that the assault was an incident thereof, that is, if it was committed in the discharge of such duty and in furtherance thereof, the corporation is liable therefor the same as an individual would be. Thus, a railroad company, by placing a conductor in charge of a train of cars to collect fares, is liable for an assault committed by him or by his direction in discharging that duty, even though the act is ill-advised, unnecessary and entirely unlawful.[5]

19 Pick. (Mass.) 511; Thatcher *v.* Bank, 5 Sandf. (N. Y.) 121; Beach *v.* Fulton Bank, 7 Cow. (N. Y.) 485; Edwards *v.* Union Bank, 1 Fla. 136; Lyman *v.* White River Bridge Co., 2 Aiken (Vt.), 255; Whiteman *v.* R. Co., 2 Harr. (Del.) 514; Underwood *v.* Newport Lyceum, 5 B. Monr. (Ky.) 129.

[1] First Baptist Church *v.* Schenectady, etc., R. R. Co., 5 Barb. (N. Y.) 79; Rhodes *v.* Cleveland, 10 Ohio, 159; Thompson *v.* New Orleans & Carrolton Co., 10 La. Ann. 403; Little Miami R. R. Co. *v.* Stevens, 20 Ohio, 415.

[2] Beach *v.* Fulton Bank, 7 Cow. (N. Y.) 485; Hawkins *v.* Dutchess, etc., Steamboat Co., 2 Wend. (N. Y.) 452; Lyman *v.* White River Bridge Co., 2 Aik. (Vt.) 255; Moore *v.* Fitchburgh R. R. Co., 5 Gray (Mass.), 465.

[3] Orr *v.* Bank of United States, 1 Ohio, 36.

[4] Orr *v.* Bank, *ante*

[5] Wood's Law of Master and Servant, 548–580. In Ramsden *v.* Boston & Albany R. Co., 104 Mass. 117; 6 Am. Rep. 117, the female plaintiff was a passenger upon the defendants' railroad, and upon being called upon for her fare paid it to the conductor. Soon after he called upon her again for her fare, and she declined to pay him, informing him that she had already paid it to him. This the conductor denied, and used very abusive and insulting language to her, and demanded that she should give him her parasol to keep as security for her

SEC. 482. **The maxim, qui facit per alium facit per se, specially applicable to corporations.** — The rule is, that "when a person puts another in his place to do certain acts in his absence, he necessarily leaves him to determine for himself, according to his judgment and discretion, according to circumstances and exigencies that may arise, when and how the act is to be done, and trusts him for its proper execution; consequently he is liable for the wrongful execution of the act, both in the manner and occasion of doing it, provided it is done *bona fide* in the prosecution of his business and within the scope of the servant's express or implied authority, and not from mere caprice and wantonness, and wholly

fare, which she refused to do, and the conductor thereupon took hold of the parasol and forcibly wrenched it from her possession. The lower court held, as a matter of law, that no recovery could be had, because no authority, express or implied, existed on the part of the conductor to seize the property of a passenger for the payment of fare. But, upon appeal, this ruling was reversed, GRAY, J., remarking: "The use of unwarrantable violence in attempting to collect fare of the plaintiff was as much within the scope of the conductor's employment as the exercise or threat of unjustifiable force in ejecting a passenger from the cars. Neither the corporation nor the conductor has any more lawful authority to needlessly kick a passenger or make him jump from the cars when in motion than to wrest from the hands of a passenger an article of apparel or personal use, for the purpose of compelling payment of fare. Either is an unlawful assault; but, if committed in the exercise of the general power vested by the corporation in the conductor, the corporation as well as the conductor is liable to the party injured."

In another case, Holmes *v.* Wakefield *et al.*, 12 Allen (Mass.), 580, it was held that even though the plaintiff was a trespasser at the time when the injury was inflicted, yet, if in ejecting him from the train the conductor uses more force than is reasonable or necessary to accomplish his removal, or removes him under improper circumstances, the company would be liable for the injury. Thus, in this case, the plaintiff got upon a freight train, and, after it had started, the conductor told him to get off. The plaintiff offered to pay his fare, but the conductor declined to receive it, and, while the train was in motion, gave him a push, so that to save himself he had to jump, and thus was seriously injured. It appeared that the company had issued printed instructions as follows: "The conductor will not allow any person to ride in any freight car attached to their train," of which instruction the conductor was aware; and this was the only authority or instruction under which the conductor acted. The court held that the company were liable for the injury.

In an Indiana case (Jeffersonville R. Co. *v.* Rogers, 38 Ind. 116) it appeared that, by a regulation of the defendant — a railroad company — an additional sum was charged of passengers who had not procured tickets before entering the cars. The plaintiff applied at the ticket office of defendant for a ticket to C., but, without fault on his part, failed to procure it. On the cars he informed the conductor of his attempt to procure a ticket, and tendered the sum required to purchase a ticket. The conductor demanded an additional sum, which the plaintiff refused to pay. The conductor thereupon ejected him from the car, and the court held that the defendants were not only liable for the injury, but that, if the jury found that the act was done through "oppressive malice or wantonness," exemplary damages might be given, and a verdict for $1,000, under the circumstances, was held not excessive.

outside the duties imposed upon him by the master."[1] And this rule applies with equal, even more force, to corporations that in the very nature of things must act through employees, and extends to every agent employed, from the highest to the lowest, the simple test of liability being, whether the act was done in the discharge of a duty committed to such agent by the corporation and within the scope of his authority, express or implied.[2]

Sec. 483. **Cases illustrating the maxim.** — In *Limpus* v. *General Omnibus Company*, it was held, that the driver of an omnibus, employed to pick up passengers for a corporation, who drove his horses against a rival coach in order to obtain passengers, was treated as doing an act within the scope of his authority, although he had been expressly directed *not to do such an act*.[3] The defendants had given instructions to their driver not to obstruct any omnibus. It was contended upon the hearing in the Exchequer Chamber that no recovery could be had, because the act was *willfully and purposely* done by the servant in direct disobedience of the master's orders, and Mellish, in his argument for the defendants, contended, upon the authority of *Croft* v. *Alison* (4 B. & Ald. 590), that no recovery could be had because the driver was pursuing a purpose of his own, and not his master's business, when he did the act complained of, and cited the rule laid down in the case last referred to, viz.: "If a servant driving a carriage, in order to effect some purpose of his own, wantonly strikes the horses of another and produces the accident, the master will not be liable. But if, in order to perform his master's orders, he strikes, but injudiciously, and in order to extricate himself from a difficulty, that will be negligent and careless conduct, for which the master will be liable, being an act done in pursuance of the servant's employment." Williams, J., interrupting the counsel, said: "If a driver, in a moment of passion, vindictively strikes a horse with a whip, that would not be an act done in the course of his employment; but in this case

[1] Wood's Law of Master and Servant, 562; Weed *v.* Panama R. Co.

[2] Wood's Law of Master and Servant, 562 *et seq.*

[3] Limpus *v.* General Omnibus Co., 1 H. & C. 528. See, also, S P. Green *v.* London Omnibus Co., 7 C. B. (N. S.) 290; Goff *v.* Great Northern R. Co., 3 El. & El. 672.

the servant was pursuing the purpose for which he was employed, viz., to drive the master's omnibus. Suppose a master told his coachman not to drive when he was drunk, but he nevertheless did so, would not the master be responsible?" To which Mr. Mellish responded: "Here the defendants' driver *recklessly* and *purposely* obstructed the plaintiff's omnibus. That was not an act within the scope of his employment, and was contrary to the orders given to him by his master." CROMPTON, J., said: "Was not the driver carrying out his master's purposes in attempting to get before the other omnibus and pick up passengers?" WILLIAMS, J., said: "Suppose the driver of an omnibus saw a passenger waiting at a distance, and, in order to reach him before another omnibus, drove at full speed and thereby drove over a person, would not the master be liable?" It was held by the court (WIGHTMAN, J., dissenting) that the defendants were liable, and the doctrine of *Lyons* v. *Martin* (8 Ad. & El. 515), that, in order to render the master liable, the act done by the servant must be lawful, was directly impugned by CROMPTON, J., in the course of his opinion, and it may be regarded as settled, beyond question, that the question of the lawfulness or unlawfulness of the servant's act does not affect the question of the master's liability; but if the act was done in the course of his employment, and in furtherance of the master's business, and is within the authority of the servant, express or implied, the master is liable, even though the act is unlawful, willful, wanton or malicious.[1] On the trial of the action MARTIN, B., instructed the jury that, if the defendants' driver, being irritated, acted *carelessly*, *recklessly*, *wantonly*, *or improperly*, *but in the course of his employment*, and in doing that which he believed to be for the interest of the defendants, then the defendants were responsible, and that the instructions given by them to the driver not to obstruct other omnibuses, if he did not observe them, were immaterial as to the

[1] Howe *v.* Newmarch, 12 Allen (Mass.), 49; Ramsden *v.* Boston and Albany R. R. Co., *ante;* Holmes *v.* Wakefield, *ante;* Rounds *v.* Del. and Lackawanna R. R. Co., *ante;* Moore *v.* Fitchburg R. R. Co., 4 Gray (Mass.), 465; Hewett *v.* Swift, 3 Allen (Mass.), 420; Bryant *v.* Rich, 106 Mass. 180; 8 Am. Rep. 311; Sherley *v.* Billings, 8 Bush (Ky.), 147; 8 Am. Rep. 451; Goddard *v.* Grand Trunk R. R. Co., 57 Me. 202; 2 Am. Rep. 39; Jackson *v.* The Second Av. R. R. Co., 47 N. Y. 274; 7 Am. Rep. 448; Higgins *v.* Watervliet Turnpike Co., 46 N. Y. 23; 7 Am. Rep. 293; Duggins *v.* Watson 15 Ark. 118.

question of the master's liability, but that if the true character of the driver's act was, that it was an act of his own, and in order to effect a purpose of his own, then the defendants were not responsible. Upon this direction being excepted to, the Exchequer Chamber held that it was correct. In the course of his judgment, Willes, J., said: "It appears clearly to me that this was (and it was treated by my brother Martin as) a case of improper driving, and not a case in which the servant did any thing altogether inconsistent with the discharge of his duty to his master, and out of the course of his employment, a fact upon which it appears to me that the case turns. This omnibus of the defendants was driven in before the omnibus of the plaintiff. Now, of course, one may say that it is no part of the duty of a servant to obstruct another omnibus, and that in this case the servant had distinct orders not to obstruct the other omnibus. I beg to say, in my opinion, those instructions were perfectly immaterial. If they were disregarded, the law casts upon the master the liability for the acts of his servants, in the course of his employment, and the law is not so futile as to allow the master, by giving secret instructions to a servant, to set aside his liability. I hold it to be perfectly immaterial that the master directed the servant not to do the act which he did. As well might it be said that if a master, employing a servant, told him that he should never break the law, he might thus absolve himself from all liability for any act of the servant, though in the course of the employment." Byles, J., puts the case very pertinently. He says: "I am also of opinion that my brother Martin's direction in this case was correct. He uses the words 'in the course of his employment,' which, as my brother Willes has pointed out, are expressions directly justified by the decisions. His direction, as I understand it, amounts to this, that if a servant acts in the prosecution of his master's business, with the intention of benefiting his master, and not to benefit or gratify himself, then the master is responsible, although it were in one sense a willful act on the part of the servant. Now, it is said that this was contrary to the master's instructions. That might be said in ninety-nine cases out of a hundred, where actions are brought against the master to recover damages for the reckless driving of a servant. It is said that it

was an illegal act. So, in almost every case of an action against the master for the negligent driving of a servant, an illegal act is imputed to the servant."

SEC. 484. **Implied powers of servant.**—In *Rounds* v. *Delaware & Lackawanna Railroad Company*, a New York case, the question of the *implied* powers of a servant was ably discussed and considered, and what we conceive to be the true rule announced. In that case,[1] the plaintiff, a boy twelve years old, jumped on the baggage car of the defendants' passenger train, to ride down to the round-house. A quantity of wood was pitched along the track. While the train was being backed down, and when it arrived at the wood-pile, the baggageman in charge of the train discovered the boy on the car and ordered him off. The boy responded that he could not, because the wood was right there. The baggage-master, with an oath, kicked the plaintiff off the car, and, falling against the wood, one of his legs was thrown under the car and crushed. A notice, as follows, was posted in the baggage-car: "No person will be allowed to ride in this baggage-car except the regular trainmen employed thereon. Conductors and baggagemen must see this order strictly enforced." Still another notice was printed in the posted time cards, as follows: "Train baggagemen must not permit any person to ride in the baggage car except the conductor and news agent connected with the train. Conductors and baggagemen will be held alike accountable for a rigid enforcement of this rule." In an action to recover for the damages inflicted by the injury, the court held that the defendants were liable. COUNTRYMAN, J., in a very able and carefully-considered opinion, reviewed the cases bearing upon these questions, and, among other things, said: "The servant, in thus removing the plaintiff, was engaged in the line of his duty and obeying the instructions of the defendant, and to shield it from liability the instructions must have been reasonable and proper with reference to the rights of plaintiff, and must have been executed, under all the circumstances, in a reasonable and proper manner. Having made suitable regulations, the defendant was also bound

[1] Rounds *v.* Del. & Lackawanna R. R. Co., 5 T. & C. (N. Y.) 475, affirmed by court of appeals.

to see that they were properly executed. The principal must necessarily be answerable within reasonable limitations for the manner in which his instructions are carried into effect. * * * And the principal must necessarily be bound by any lack of judgment or discretion of the agent, whereby he acts improperly and inflicts unnecessary injury."[1]

SEC. 485. **Injury to trespasser, by servant.**—In *Lovett* v. *Salem, etc., Railroad Company*, it was held, that a driver of horse cars, whose duty it is to keep trespassers from riding on the platform, would naturally be expected to execute the order in a proper and lawful manner, but if he in fact executes it in an improper and unlawful manner, the master is liable therefor, because he takes the risk upon himself, by reposing any authority at all in the servant to do an act which, if improperly done, may result in injury to others. In a case of this character,[2] the plaintiff, a boy of ten years of age, wrongfully got upon the defendants' street railway car while it was in motion; and was permitted to ride some distance, when, while the car was running at such a rate of speed as to make it unsafe for him to do so, he was ordered by the driver to jump off, which he did, and in doing so was thrown down, and his right arm being thrown under the car was run over and crushed, so that amputation was rendered necessary, and the court held that the defendant was responsible for the

[1] Lovett *v.* Salem, etc., R. R. Co., 9 Allen (Mass.), 557; Holmes *v.* Wakefield, *ante;* Kline *v.* Central Pacific R. R. Co., 37 Cal. 400; Sanford *v.* Eighth Ave. R. R. Co., 23 N. Y. 343.

A doctrine similar to this was held in Bayley *v.* The Manchester, etc., Railway Co., L. R., 7 C. P. 415. In that case the plaintiff was a passenger upon the defendants' train, and sustained injuries in consequence of being violently pulled out of a railway carriage by one of the defendants' porters, who acted under an erroneous impression that the plaintiff was in the wrong carriage. The defendants' by-laws did not expressly authorize the company's servants to remove any person being in a wrong carriage, but they provided that no person should be allowed to enter any carriage or to travel therein without having first paid his fare and taken a ticket. They likewise provided that the porters should act under the orders of the station master, etc., and do all in their power to promote the comfort of the passengers and the interests of the company. It was held by the court that the act of the porter, in pulling the passenger out of the carriage, was an act within the course of his employment as the defendants' servant for which they were responsible. In another case (Walker *v.* The South-Eastern Railway Co., 39 L. J. C. P. 346), the plaintiff, on arriving at the defendants' station, took part in a dispute going on between some other passengers and the defendants' servants relative to a railway ticket, whereupon the defendants' servants seized him, ran him down an incline, pushed him out of the station, and as he passed through the door, gave him a kick. In an action for the assault, the defendants were held liable.

[2] Lovett *v.* Salem, etc., R. R. Co., 9 Allen (Mass.), 557.

injury, the order of the driver to "jump off," considering the age of the plaintiff, being equivalent to a forcible ejection.[1]

SEC. 486. **Liability when servant acts contrary to instruction.**— In *Garretzen* v. *Duenckel*, a Missouri case,[2] the application of this rule was well illustrated. In that case the defendant was the proprietor of a gun store, and his clerk upon one occasion, when showing a gun to a customer, at his request, and being informed by the purchaser that he would not purchase the gun unless it was loaded, loaded the gun, and, while being examined by the customer, it was accidentally discharged and injured the plaintiff, who was sitting at a window on the opposite side of the street, the master had expressly instructed the servant not to load any of the fire-arms, and it was urged in defense that the act of the servant being in conflict with and contrary to the master's orders, was not an act within the scope of the servant's authority, and the master could not be held liable therefor. But the court held that, notwithstanding the express order of the defendant, the act was one done in the prosecution of his business and in furtherance thereof, and was within the scope of the servant's employment.

SEC. 487. **Real test of liability.** — It is of no account that the master did not direct the doing of the act,[3] or even that it was done contrary to his instructions, or without his knowledge; the simple question is, whether it was done in the prosecution of his business and as an incident thereto.[4] It is of no importance whether the act is necessary to the prosecution of the master's business or not. Liability attaches if it was done in

[1] In Shea *v.* Sixth Av. R. R. Co., 62 N. Y. 180, one of the defendants' horse cars was standing at the corner of a street in New York, so as to prevent persons from passing across the street on the walk. The plaintiff, being desirous of passing, stepped upon the platform of the car for that purpose, when the driver pushed her off, and in falling she broke her arm. The court held that, inasmuch as it was the duty of the driver to keep trespassers off the platform, he was acting in the scope of his employment, and that the defendants were liable for the assault.

[2] Garretzen *v.* Duenckel, 50 Mo. 104; 11 Am. Rep. 405.

[3] Storey *v.* Ashton, L. R., 4 Q. B. 476; Barwick *v.* Joint-Stock Co., L. R., 2 Exch. 265; Seymour *v.* Greenwood, *ante;* Tuberville *v.* Stamp, Raym. 266; Filliter *v.* Phippard, 11 Ad. & El. 347.

[4] Hamilton *v.* Third Av. R. R. Co., 53 N. Y. 25; Barwick *v.* Joint-Stock Co., *ante;* Howe *v.* Newmarch, *ante;* Ramsden *v.* Bost. & Alb. R. R. Co., *ante;* Goff *v.* Gt. Northern R. R. Co. 3 El. & El. 672; Ewbank *v.* Nutting, 7 C. B. 797.

the prosecution of the work, and in furtherance thereof, even though the act was ill-advised and contrary to the master's orders. The test is, whether the act was done in the course of the master's business and in furtherance of it. If so, the master is responsible for the consequences, without any reference to the manner of the execution of the work.[1]

The fact that the order is proper and only contemplates a proper execution on the part of the servant does not change the rule of liability. Having clothed the servant with authority to do the act at all, the employer *is bound, at his peril, to see that it is properly executed*, and is liable alike for mistakes of judgment, or infirmity of temper on the part of his servant.[2]

The fact that he has expressly directed the servant *how to do the act, or not to do a particular thing*, is in no measure a defense. *If the act is within the scope of the servant's employment*, liability attaches for the consequences of a wrongful execution of the duty, without any reference to the degree of care exercised by the master to prevent it. It is not the instructions of the master that determine the extent and limit of the agent's authority, but the nature of the employment, the character of the service required, and the character of the act done, and the circumstances under, and the purpose for which it was done. Grover, J., illustrated the matter thus:[3] "If," said he, "the owner of a building employs a servant to remove the roof from his house, and directs him to throw the materials upon his lot where no one would be endangered, and the servant, disregarding this direction, should carelessly throw them into the street, causing an injury to a passenger, the master would be responsible therefor, although done in violation of his instructions, because done in the business of the master. But should the servant, for some purpose of his own, *intentionally* throw materials upon a passenger, the master would not be responsible for the injury, because it would not be an act done in his business, but a departure therefrom by the servant to serve some purpose of his own." In determining the question of authority, we must regard the object, purpose and end of the employment. When a person employs another to drive his carriage,

[1] Minter *v.* Pacific R. R. Co., 41 Mo. 503; Croft *v.* Alison, 4 B. & Ald. 590.

[2] Wood's Law of Master and Servant, 566.

[3] Cosgrove *v.* Ogden, 49 N. Y 255

it is not to be presumed that he employs him to drive it purposely and intentionally against the carriage of another when such act is wholly unnecessary to carry out any purpose of his master; but, if the servant, in driving the carriage, finds himself involved in a position of danger, either to himself or the team, and in extricating himself purposely drives against the carriage of another and overturns it, this is most certainly within the line of his duty, and is within the scope of his authority, because he is presumed to be clothed with authority to do every thing essential to effectuate the purpose and ends of his employment.[1] BLACKBURN, J., in a recent case heard in the Queen's Bench,[2] very aptly illustrated the rule thus: "The question is," said he, "whether there is any evidence of an authority given by the defendants to the booking clerk to arrest the plaintiff, under the circumstances of this case. It is quite clear that there was no evidence of an express authority. Then can such authority be implied? The facts from which an authority can be implied are, that the person who arrested the plaintiff is a ticket distributor in the employ of the defendants; that he gives out tickets to persons intending to travel by the railway, and receives the money, and that the money received on behalf of the defendants is put into a till, of which he has the charge and custody. On these facts it may be fairly said that the booking clerk has an implied authority to do all acts which are necessary for the protection of the money intrusted to him. I am inclined to think that if a man in charge of a till should find a man attempting to rob it, and he could not prevent it otherwise than by taking him into custody, the person in charge of the till might have an implied authority to arrest the offender; or if the clerk had reason to believe that the money had been actually stolen and he could not get it back except by taking the thief into custody, and he took him into custody with a view to a recovery of the money taken away, it might be that that also might be within the authority of a person in charge of the till. * * * There is an implied authority to do all those things that are necessary for the protection of property intrusted to a person, or for fulfilling a duty which the person has to per-

[1] Limpus *v.* General Omnibus Co., *ante*; Seymour *v.* Greenwood, 6 H. & N. 359.

[2] Allen *v.* London and South Western Railway Co., L. R., 6 Q. B. 68.

form. * * * For instance, where a company have, under a by-law, a power to arrest a man if he does not pay his fare, the primary object of the by-law is to enforce the payment of fares to the company and to protect their interest, and it has been rightly held that when a company leaves a servant in charge of a station he has an implied authority to decide that the by-law shall or shall not be enforced; but if the servant in charge of the station does an act in no way connected with the business of the company, there would be no implied authority for the act, and the company would not be liable." [1] In *Edwards* v. *The London & South Western Railway Co.*, *ante*, Smith, J., enunciated the rule of liability from an implied authority, thus: "No doubt if, in furtherance of the particular business of the company, it is *necessary* to arrest a person, the servants of the company have an implied authority to do it. Thus, if there is a by-law of the company, and authority is given to arrest any person infringing it, it must be presumed that the company give authority to any one they put in charge of the station so to enforce it, since this can only be done by the company's servants on the spot." In *Seymour* v. *Greenwood*, 6 H. & N. 359, Baron Pollock said: "Suppose a servant, in driving along a road, in order to avoid danger, *intentionally* drove against the carriage of another, would not the master be liable?" Without stopping to give further illustrations from the modern cases, it may be said to be well settled that the master is not only responsible for the negligence or misfeasance or malfeasance of the servant in respect of the discharge of duties expressly imposed upon him, but also in all cases where the act of the servant is within the scope of his implied authority, and in determining this, the nature of the employment and the ends and purposes sought to be attained are material elements, and the real test of liability.[2] *Prima facie*, when the act is one which the master himself might have done, it will be presumed that it was an act within the scope of the servant's authority, and the burden of proving want of authority rests upon the defend-

[1] Poulton *v.* Railway Co., *ante;* Edwards *v.* Railway Co., L. R., 5 C. P. 445.

[2] Ramsden *v.* Boston & Albany R. Co., *ante;* Howe *v.* Newmarch, *ante;* Shea *v.* Railroad Co., *ante;* Goddard *v.* Grand Trunk R. Co., 57 Me. 202; Rounds *v.* Lackawanna, etc., R. Co., *ante;* Peck *v.* H. R. & N. Y. C. R. Co., *ante.*

ant.[1] In the first case cited in the last note the plaintiff brought an action for an assault committed upon him by the defendants' servant, a brakeman, in forcibly ejecting him from one of their passenger cars. It appeared that the defendants set apart a car for ladies and gentlemen accompanied with ladies. The servant was stationed at the entrance of the cars to direct passengers what cars to take. The plaintiff, not being accompanied by a lady, entered the car reserved for ladies, and the servant directed him to get into another car. This the plaintiff refused to do, and the assault complained of was committed in forcibly removing him. In defense it was urged that the servant exceeded his powers, and was not authorized to remove the plaintiff from the car, but only to direct him what car to take. Upon this question JAMES, J., said: "That a master is not liable for the wrongful acts of his servant, unless done in his service and within the scope of his employment, will not be disputed. If the employee who removed the plaintiff is to be regarded as a brakeman, unauthorized to perform any duties other than such as pertained to that office, and volunteered the act in question without other authority or direction, then the defendant was not liable in this case. But as brakeman he was an employee of the company, subject to its authority and the direction of its officers, and as such employee he was directed, by the person in charge, to see that gentlemen without ladies did not enter that car, and it was in the performance of that service he did the act complained of. It is true he was not ordered to remove persons from the car; his orders were to notify gentlemen not in charge of ladies that such car was reserved, and direct them to cars forward; so that in removing plaintiff he clearly exceeded the orders given him. But this fact the plaintiff could not know; as between him and the company it was enough that the act was done in the prosecution of his master's business, and if he deviated from or exceeded his instructions, that fact did not excuse the master from responsibility. The order to the brakeman, and his performance, warrants the conclusion, even as a matter of law, that he was acting within the scope of the employment he was then set to perform, if per-

[1] Peck *v.* H. R. R. Co., 6 T. & C. (N. Y.) 436; Jackson *v.* Second Av. R. Co., 47 N. Y. 274; Higgins *v.* Watervliet Turnpike Co., 46 id. 23; Cosgrove *v.* Ogden, 49 id. 225.

sons disregarded his directions and persisted in entering that car. The defendant had the right to set apart a car for lady passengers, and exclude other persons from it; if other persons, after notice, persisted in entering it, the defendant had the right to enforce their removal, using no more force than necessary for that purpose. The brakeman did no more than the master had the right to do under the circumstances, and the presumption is that in doing it he was acting within the scope of his then employment." [1]

Sec. 488. **If act is within implied power of servant liability exists.** — It is not necessary, in order to fix the liability of the corporation, that the agent should, at the time of the injury, have been acting under its orders or directions, or that the officers of the corporation should know that the servant was to do the particular act that produced the injury in question. *It is enough if the act was within the scope of his employment, and if so, it is liable, even though the agent acted willfully and in direct violation of his orders.*

This is upon the principle that a master cannot screen himself from liability for an injury committed by his servant within the line of his employment, by setting up private instructions or orders given by him, and their violation by the servant. "By putting the servant in his place," says Mr. Wood in his work upon The Law of Master and Servant, p. 585, "he becomes responsible for all his acts within the line of his employment, even though they are willful and directly antagonistical to his orders. The simple test is, whether they were acts *within the scope of his employment;* not whether they were done while prosecuting the master's business; *but whether they were done by the servant in furtherance thereof, and were such as may fairly be said to have been authorized by him.*" By *authorized* is not meant authority *expressly* conferred, but whether the act was such as was incident to the performance of the duties intrusted to him by the master, even though in opposition to his express and positive orders. Thus, to illustrate: where a horse-car conductor who forcibly and violently pushes a passenger from a car which is being run by him, because the passenger refuses to leave the car until it comes to a full stop, it being no part of his duty to assist passengers in

[1] Isaacs *v.* Third Ave. R. Co., 47 N. Y. 122.

getting on and off the cars, the company is held not liable for the injuries resulting from the act, *because it is not within the scope of the conductor's duties or employment*, and is not such as can be said to have been within the contemplation of the employer, or as to have been authorized by him. But, if the assisting of passengers on or off of the cars had been a part of his duty, either by the express direction of the master, or by a well-established usage, the act, although willful and wanton, would have been within the scope of his employment, and the master would have been liable therefor. Thus, when a horse railroad company, among other things, requires its drivers to keep trespassers off from the platform, it is liable for the act of the driver in expelling a person therefrom, even though his act is *willful and wanton*, and although the person expelled by him is not a trespasser.[1]

The master can never escape liability for an *abuse* of authority by the servant;[2] therefore, the question always is, whether there was *any* authority, express or implied, on the part of the servant to do the act.[3] If so, the master is liable; if not, he is not liable, even though the act was done by the servant while performing his master's service.[4] In ascertaining this fact, the nature of the service, its character and incidents, as well as the orders of the master, if any, are all to be considered. To illustrate: a person employed as a conductor upon a railroad, whose duty it is to collect the fares of passengers, is, even though not specially directed so to do by his employment and the very nature of his duties, impliedly clothed with authority to eject a person from the cars,

[1] Shea *v.* Sixth Ave. R. Co., 62 N. Y. 180.

[2] Higgins *v.* Watervliet Turn. Co., 46 N. Y. 23; Shea *v.* Sixth Ave. R. Co., *ante;* Phila. & Read. R. Co. *v.* Derby, 14 How. (U. S.) 468; Phila., etc., R. Co., *v.* Steam Tow Boat Co. 23 id. 209.

[3] Shea *v.* Sixth Ave. R. Co., *ante;* Baldwin *v.* Casella, 21 W. R. 16.

[4] In Oliver *v.* Northern Transportation Co., 3 Oregon, 84, the defendants' servant injured the plaintiff by the careless discharge of a signal gun. The defendants claimed that they were not liable, because the servant disobeyed their instructions as to the firing of the gun. The court held that, inasmuch as the servant was authorized to discharge the gun by the defendants, they were liable for the *manner* in which he discharged it, whether in violation of their instructions or not. Enos *v.* Hamilton, 24 Wis. 658; Horner *v.* Lawrence, 37 N. J. L. 46; Case *v.* Mechanics' Bank, 4 N. Y. 166; Hynes *v.* Jungren, 8 Kan. 391; Cosgrove *v.* Ogden, 49 N. Y. 255; Tucker *v.* Woolsey, 64 Barb. (N. Y.) 142; Ryan *v.* H. R. R. Co., 33 N. Y. Sup. Ct. 137; North River Bank *v.* Aymar, 3 Hill (N. Y.), 262; McClanathan *v.* R. Co., 1 T. & C. (N. Y.) 501.

who shall neglect or refuse to pay his fare, and it is one of his duties, implied from the very nature of the employment and the character of the service; therefore, if in the performance of this duty, he uses more force than is necessary;[1] or if he assaults or insults a person who has in fact paid his fare, and is lawfully entitled to be upon the train;[2] or if he ejects a person from the train at a place where, by law, he has no right to eject him, the corporation is liable for his acts as much as though the act had been specially directed and authorized by it.

Sec. 489. **Matters to be considered in determining whether the act is within the scope of the agent's authority.** — In determining whether the act was one within the scope of the agent's authority, the character of the business and its probable consequences are to be looked to. Thus, if a canal company employs a person to attend a drawbridge,[3] it is liable for injuries inflicted by him in raising the draw. So, if a person is employed to blast in a quarry, the principal is liable for injuries resulting from the agent's failure to adopt proper precautions.[4] So, where a person is employed to drive an omnibus and pick up passengers, the employer is liable for injuries inflicted by him either upon individuals or the property of rival companies by improper driving.[5] So, where a railway company employs a conductor to run a train and collect fares, it is liable for an assault committed by the conductor upon a passenger in a wrongful attempt to collect or secure the fare,[6] or where a brakeman is posted at the entrance to cars to direct passengers which car to take, for an assault committed by him upon a passenger in removing him from a car;[7] or where a station agent commits an assault upon a person in attempting to eject him from the station;[8] and so, generally, where the act is one done in doing that which the servant or agent was authorized to do, and is within the scope of his authority, the principal is answerable for the consequences.[9] In

[1] Jackson *v.* Second Ave. R. Co., 47 N. Y. 274; 7 Am. Rep. 448; Higgins *v.* Watervliet Turnpike Co., 46 N. Y. 23; 7 Am. Rep. 293.

[2] Goddard *v.* Grand Trunk R. Co., 57 Me. 202; 2 Am. Rep. 39.

[3] Hunter *v.* Glasgow, etc., Canal Co., 14 S. (Sc.) 717.

[4] Sword *v.* Cameron, 1 D. (Sc.) 439.

[5] Limpus *v.* General Omnibus Co., 1 H. & C. 526.

[6] Ramsden *v.* Boston & Albany R Co., 104 Mass. 104.

[7] Peck *v.* R. Co., 6 T. & C. (N. Y.) 436.

[8] Hewett *v.* Swift, 3 Allen (Mass.), 423.

[9] Brown *v.* McGregor, 17 F. C. (Sc.) 232; Baird *v.* Graham, 1 Stuart (Sc.), 578; Green *v.* London, etc., Omnibus

order, however, to impute liability to the corporation, the relation of master and servant must have existed, that is, the servant or agent must either have been employed or controlled by the corporation, *or the right of control* must have existed in it, or it must have assented to the performance of the service by him, or have been notified of it after it was performed.[1]

SEC. 490. **Contractor's and contractee's liability.** — If the service was performed by an independent contractor, who performed it in his own way without being subject to the direction of the corporation, liability does not exist, unless the injury is a necessary result of doing the work at all.[2]

In a Connecticut case[3] a railroad company undertook to remove a cargo or coal from a vessel to its freight cars, and, having had some difficulty with the gang of shovelers who were on a strike, made an arrangement with its weigh-master to allow him a certain sum per ton for shoveling and dumping the coal, and that he should employ the shovelers, and if he could employ them for less than the sum allowed him, the difference should be his perquisite, independent of his regular wages as weigh-master. The weigh-master then hired a gang of shovelers, made his returns weekly to the company of the number of tons shoveled, received the amount allowed him and paid the shovelers. The regular pay-rolls of the employees of the company, including the weigh-master, did not embrace the shovelers. It was held that the shovelers were not the servants of the company.

So, where certain persons were authorized to construct a public sewer at their own expense, and they employed a person to do the work at an agreed price, it was held, in an action for injuries

Co., 7 C. B. (N. S.) 290; Garretzen *v.* Duenckel, 50 Mo. 104; Goff *v.* Gt. Western R. Co., 3 El. & El. 672; Moore *v.* Fitchburg R. Co., 4 Gray (Mass.), 465; Ramsden *v.* Boston & Albany R. Co., 104 Mass. 117; Adams *v.* Cole, 1 Daly (N. Y. C. P.), 147; Corrigan *v.* Union Sugar Refinery Co., 98 Mass. 577; Cosgrove *v.* Ogden; Hill *v.* Morey, 26 Vt. 178.

[1] McGuire *v.* Grant, 25 N. J. 356; Kimball *v.* Cushman, 103 Mass. 194; Whatman *v.* Pearson, L. R., 3 C. P. 423.

[2] Hunt *v.* R. Co., 51 Pa. St. 475; Hilliard *v.* Richardson, 3 Gray (Mass.), 349; Schular *v.* Hudson R. Co., 38 Barb. (N. Y.) 653; Potter *v.* Seymour, 4 Bosw. (N. Y.) 140; Painter *v.* Pittsburg, 46 Pa. St. 213; Brackett *v.* Lubke, 4 Allen (Mass.), 138.

[3] Burke *v.* Norwich, etc., R. Co., 34 Conn. 474; Murphy *v.* Caralli, 3 H. & C. 462; Murray *v.* Currie, L. R., 6 C. P 24.

received by reason of the negligent manner in which the sewer was left at night, that the contractor could not be held responsible therefor.[1] The rule is that where an employee is exercising a distinct, an independent employment, and is not under the immediate control, direction or supervision of the employer, the latter is not responsible for the negligence or carelessness of the employee. Thus, where a public licensed drayman was employed to haul a quantity of salt from a warehouse, and deliver it at the store of the employer at so much per barrel, and while in the act of delivering the salt one of the barrels, through the carelessness of the drayman, rolled against and injured a person passing on the sidewalk, it was held that the employer was not liable for the injury.[2]

Where an employer made a bargain with his employee to cut all the logs the employer had on certain land, and to deliver them to the employer at a place named, the employer having no interest in the running of the logs until they reached the point of delivery, nor was he to render any assistance, pecuniary or otherwise, in the cutting or running of the logs,— it was held, that the relation of master and servant did not exist, and that the employee alone was liable for any injury occasioned to others by his conduct in performing his contract.[3] So, where the plaintiff was injured by being thrown from his wagon by collision with a car owned by the defendant, but drawn by horses owned by a contractor with whom they had contracted to draw their cars and furnish horses and drivers, the horses at the time of the injury being driven by a man employed by the latter, it was held, that the contractor alone was liable.[4] In a case where a railway company, by agreement under seal, engaged a contractor to build the railway, reserving power to the company to watch the progress of the work, and to dismiss any incompetent workmen employed by the contractor. In constructing a viaduct on parts of the railway over a public highway, a stone, through the negligence of the workmen, fell upon the plaintiff's husband, who was passing along the road underneath, and caused his death,—it was held, that the company was not

[1] Blake *v.* Ferris, 5 N. Y. 48.
[2] De Forrest *v.* Wright, 2 Mich. 368.
[3] Moore *v.* Sanborne, 2 Mich. 519.
[4] Weyant *v.* New York & Harlem Railroad, 3 Duer (N. Y.), 360.

liable for the damages,[1] and that a mere reservation of the right to discharge any of the workmen did not affect their liability, unless the defendant also reserved and exercised control over the work itself. And this is held to be the rule even as to municipal corporations, unless they have the exclusive control and care over the subject-matter of the contract. In a Pennsylvania case,[2] Judge STRONG, in commenting upon the policy of the rule, said: "It is difficult to discover any substantial reason or good policy for holding the present defendants responsible. The negligence complained of was not theirs. It does not appear that they knew of it. The verdict determines that the fault was on the contractors. Over them the defendants had no more control than the plaintiff's husband had. They were not in a subordinate relation to the defendants, neither were they his agents. They were in an independent employment, and sound policy requires that in such a case the contractor alone should be held liable. In making a sewer he has necessarily the temporary occupancy of the street in which the work was done, and it must be exclusive."

A railroad corporation is not liable for injuries to buildings in the vicinity of its road caused by blasting done by those who have contracted to grade the road or persons in their employ, although, under the contract, the corporation reserves the right to retain in its hands sums sufficient to pay all damages that are not adjusted within thirty days from the time they are inflicted.[3]

So, where A contracted with B and C to build her a house, to be finished complete, B and C employed D, a blacksmith, to make and place a grating in the area. The hole, over which the grating was to be placed, was left uncovered, and E fell into it and broke his leg. It was held that B and C, the first contractors, were liable to E.[4]

Where work was done for a railroad company under a contract, it was held that the company were not responsible for injury resulting to a third person from the negligent manner of doing the

[1] Reedie *v.* London & Northwestern R'way Co., 6 Railw. Cas. 184; 20 L. J. Exch. 65; 4 Exch. 244; Hobbitt *v.* Same, id. 244

[2] Painter *v.* Mayor of Pittsburg, 46 Pa. St. 213.

[3] Tibbets *v.* Knox & Lincoln R. R. Co., 62 Me. 437.

[4] McCleary *v.* Kent, 3 Duer (N. Y.), 27.

work, though they employed their own surveyor to superintend it, and to direct what should be done.[1]

Generally, a sub-contractor is not, in law, regarded as the servant of the person employing him. Thus, where the defendant, a builder, was employed by the committee of a club to execute certain alterations at the club-house, including the preparation and fixing of gas-fittings, he made a sub-contract with B, a gas-fitter, to execute this part of the work. In the course of doing it, through B's negligence, the gas exploded and injured the plaintiff. It was held that the defendant was not liable for the injury.[2] In a Scotch case,[3] it was held that the same rule applies as between a contractor and sub-contractor, as applies between the original contractee and contractor, the court remarking, that where a person contracts with one man to do a piece of work, and the latter sub-contracts with another, the sub-contractor alone is liable for any damage committed in the course of the work by him.[4]

In a recent English case [5] an interesting question was raised as to the liability of a sub-contractor for the act of his servant, to a third person, between whom and the master there was no privity, when the liability in any measure depends upon a contract. In that case, by an agreement between the Smithfield Club and the defendants, who were proprietors of a building and premises at Islington, called the Agricultural Hall, the club were to have the exclusive use of the hall during the period of their annual show of stock, etc., the defendants providing and paying a sufficient staff (who were to be under the sole control of the secretary and stewards of the club), to receive, take care of, and redeliver the stock, etc., exhibited, and also paying the club £1,000, in consideration of which the defendants were to receive certain fees or admission money from the visitors. The stock and articles to be exhibited were received at the gate of the defendants' premises by one Sharman (upon orders signed by the secretary of the Smithfield Club), who contracted with the defendants for a lump sum, amongst other things, to receive them and to re-deliver them at

[1] Steel *v.* Southeastern R'way Co., 32 Eng. L. & Eq. 366.

[2] Rapson *v.* Cubitt, 9 M. & W. 710; 1 Car. & M. 64; 6 Jur. 606. But see McCleary *v.* Kent, 3 Duer (N. Y.), 27, contra.

[3] McLean *v.* Russell, 22 Jur. 394.

[4] Shield *v.* Edinburgh & Glasgow R R. Co., 28 Jur. 539; Richmond *v.* Russell, 22 Sc. Jur. 394.

[5] Goslin *v.* Agricultural Hall Co., L. R., 1 C. P. D. (C. A.) 482.

the end of the show upon like orders, the defendants in no way interfering. One Stilgoe, who exhibited a pen of three sheep at the show in 1873, sold them to the plaintiff, and upon the plaintiff's drover producing an order for their removal signed by Stilgoe, Sharman, or one of his men, delivered him by mistake sheep from another pen. These the plaintiff rejected, and he brought an action against the defendants for converting his sheep, and it was held that the defendants were not responsible under the circumstances for the acts or defaults of Sharman or his men. And this decision was sustained on appeal, the court on appeal holding that, as between the plaintiff and the defendants, there was no privity of contract, and no duty on the part of the latter to re-deliver the stock, etc., at the close of the show.

SEC. 491. **Liability in case of a nuisance attaches only when a nuisance necessarily results.** — Where a person lets work to be done by another, by contract or job, which is innocent and lawful in itself, but which *may*, if carelessly or negligently done, result in injury to another, he is not charged with liability if such work is in fact carelessly and negligently performed. He is only liable in such cases when the work to be done *necessarily* creates a nuisance. When it is lawful in and of itself in all its details he is not liable for the acts of the contractor or his servants unless he retains control over the work *and* the instruments of its performance. He may personally, or by an agent, superintend the work, or direct as to *what* shall be done, provided he does not retain control over the *method* and *means* of its accomplishment. Thus, where a person, in erecting a building upon a public street, lets out the stone work to be done by a contractor, *under the direction and to the satisfaction of a superintendent employed by him*, this reservation is not such a reservation of control over the *method* and *instruments* of accomplishing the work, as renders him liable for an injury resulting from the negligent execution of the work by the contractor.[1]

But when the work is, of itself, in any of its details, unlawful, or necessarily results in the creation of a nuisance, the employer

[1] Chambers *v.* Ohio Life Ins. and Trust Co., 1 Dis. (Ohio) 327; Forsyth *v.* Hooper, 11 Allen (Mass.), 419; Hunt *v.* Penn. R. Co., 51 Pa. St. 475.

having the power to abate it, and it being his duty to do so, he is liable if an injury results from a nuisance created by the contractor with the assent of the employer, express or implied.[1] So, too, he is liable if he retains control over the method and means of doing the work. Thus, where the defendant let a contract for re-paving the streets of a city, but reserved entire control over the *manner* of doing the work, it was held that the relation of master and servant existed, and that the defendant was liable for injuries resulting from the negligent or improper execution of the work,[2] or if he interferes and directs *how* the work shall be done, and injury results to others while his orders are being executed.[3] "When," says Appleton, J.,[4] "the contract is to do an act in itself lawful, it is presumed it is to be done in a lawful manner. Unless, therefore, the relation of master and servant exists, the party contracting is not responsible for the negligent or tortious acts of the person with whom the contract is made, especially if those acts are outside of the contract. If the injury was the natural result of work contracted to be done, and it could not be accomplished without causing the injury, the person contracting for doing it would be held responsible."

"The authority is implied from the employment, and is a natural and legitimate incident of the service. Thus, where a brakeman was stationed at the entrance of railway cars at a depot, to direct passengers which car to take, and one car was set apart for ladies, or gentlemen accompanied with ladies, and a gentleman without a lady entered the ladies' car, and the brakeman forcibly and violently ejected him from the car, it was held that the company was liable for the injury so inflicted, because, having placed the brakeman in that position to see that the rules of the company were observed, he must be regarded as being impliedly clothed with authority to enforce obedience thereto by force."[5]

[1] Clark *v.* Fry, 8 Ohio St. 358; Carman *v.* Steubenville, etc., R. Co., 4 id. 399; Dygert *v.* Schenck, 23 Wend. (N. Y.) 446; Vanderpool *v.* Husson, 28 Barb. (N. Y.) 196; Matheny *v.* Wolffs, 2 Duv. (Ky.) 137.

[2] Cincinnati *v.* Stone, *ante*.

[3] Heffernan *v.* Benkard, 1 Robt. (N. Y.) 432.

[4] Eaton *v.* European & Northern R. Co., 59 Me. 520; 8 Am. Rep. 430.

[5] Peck *v.* N. Y. C. R. Co., 6 T. & C. (N. Y.) 436. James, J., in delivering the opinion of the court, very aptly expressed the rule thus: "If the employee, who removed the plaintiff, is to be regarded as a brakeman, unauthorized to perform any duties other than such as pertained to that office, and *volunteered* the act in question without other authority or direction then the defendant was not liable

SEC. 492. **Corporations bound to the same degree of care as natural persons — degree of care.**—From what has been said it will be seen that corporations are bound to the same degree of care in the conduct of their business, and are subject to the same rules of liability for wrongful acts committed by them in the line of their duty, as individuals are, and, being liable for the tortious or wrongful acts of their servants or agents, it follows as a natural and legitimate result that they are liable for the *manner* in which their duties are discharged, or, in other words, *for the negligence of their officers, agents or servants in the discharge of their duties, in whatever department they are employed.* The question of liability for acts claimed to be negligent must depend largely upon the powers and purposes of the corporation and the agencies employed in the conduct of its business.[1] The rule is that a degree of care must be observed *commensurate with the character of the agencies employed, and the risk to others from their improper or negligent employment.*[2]

Thus, while a railroad company is bound to exercise the highest degree of care in the selection of its machinery, cars, servants and other appliances, and in the construction of its road-bed, and in keeping the same in repair, yet it is not liable for the result of an *accident* which could not have been prevented by the exercise of such care. In other words, *when an injury results from causes that the exercise of the highest degree of care could not*

But, as brakeman, he was an employee of the company, subject to its authority and the control of its officers, and, as such employee, he was directed by the person in charge to see that gentlemen without ladies did not enter that car, and it was in the performance of that service he did the act complained of. It is true he was not ordered to remove persons from the car; his orders were to notify gentlemen not in charge of ladies that such car was reserved, and direct them to cars forward; so that in removing the plaintiff he clearly exceeded the orders given him. But this fact the plaintiff could not know, as between him and the company it was enough that the act was done in the prosecution of the master's business; *and if he deviated from or exceeded his instructions, that fact did not excuse the master from liability.* The order to the brakeman and his performance warrants the conclusion, even as a matter of law, that he was acting within the scope of the employment he was set to perform." Limpus *v.* Genl. Omnibus Co., *ante;* Seymour *v.* Greenwood, *ante;* Moore *v.* Railway Co., 21 W. R. 145; Bayley *v.* Railway Co., L. R., 7 C. P. 415.

[1] Philadelphia, etc., R. Co. *v.* Derbey, 14 How. (U. S.) 468.

[2] Wood's Law of Master and Servant, 688, 788.

have prevented, it is not liable, as such injuries are the result of inevitable accident.[1]

Sec. 493. **Not insurers against all casualties.**— A railroad corporation is not an insurer against every possible casualty, but only for such as result in spite of the highest degree of vigilance.[2] While it is bound to construct its road-bed and maintain it and its bridges in a safe condition for the use of its passengers,[3] yet, it is not liable for injuries resulting from defects therein that no degree of care or vigilance could have detected. Thus, while it is undoubtedly bound to construct them in such a manner as to withstand the effects of ordinary freshets, or, possibly, *extraordinary* freshets, yet it is not responsible for not securing them against *unprecedented* freshets, such as could not have been reasonably foreseen or guarded against.[4] In the case last cited, an action was brought for an injury received by the plaintiff while riding over the defendants' road. The case disclosed that the road-bed was constructed some five years prior to the accident, and ran through a marshy country *subject to floods;* that it was constructed on a low embankment composed of a sandy sort of soil likely to be washed away by water, *and that the culverts were insufficient to carry off the water. It was not shown, however, that the soil of the line had been washed away before, or that the water had ever come up to the embankment.* It also appeared that, on the day upon which the accident occurred, an *extraordinary storm*, attended with very violent rain, had been raging for over sixteen hours, and that in consequence of this a stream near to the spot at which the accident occurred had swollen to a torrent and washed away a bridge, and passed down with great force upon the line. By midnight the water had worn away the earth under the sleepers, in some places leaving the rails unsupported and exposed, but it did not appear that the water had at any part of the line caused the evil, *or that the condition of the line could be perceived.* The train upon which the plaintiff was injured was the express, and upon the whole went at the ordinary rate of an express train,

[1] Kansas Pacific R. Co. *v.* Miller, 2 Col. 442.

[2] Chicago, etc., R. Co. *v.* Stumps, 69 Ill. 409.

[3] Pittsburg & Fort Wayne R. Co. *v.* Gilleland, 56 Pa. St. 445.

[4] Withers *v.* No. Kent. R. Co., 27 L. J. Ex. 417.

although there was some evidence that it was being driven at a faster rate at the time when the accident occurred, to make up for lost time. The train had passed over the line safely until the accident occurred, by reason of the undermining of the sleepers and the consequent giving away or settling of the rails, which threw the train down an embankment and seriously injured the plaintiff. The jury returned a verdict for the plaintiff for £1,500 damages, which, upon hearing in Exchequer, was set aside upon the ground that there was no sufficient evidence of negligence on the part of the defendants to sustain it. BRAMWELL, B., said: "It is said that the construction of the line was such as to make it dangerous in a flood, and that, therefore, the defendants' servants must have known that it was dangerous to drive at an express rate of speed. *But negligence must be shown by the plaintiff. It is not enough to show that an accident arose from certain extrinsic or external causes.* Where is the evidence of negligence? *It is contended on the part of the plaintiff that the company's servants were bound to know the consequences which were likely to follow from the flood.* That is not so. *They were bound only to know that which could be known by the exercise of ordinary skill and prudence*, otherwise they would be made insurers of the safety of the passengers. There was no engineering or other skilled evidence to show that water would wash away the soil of which the embankment was made. So far from there being any evidence to show that there was negligence, there was evidence to negative the negligence imputed. The very existence of the line for five years, notwithstanding that the district was subject to floods, tended to negative the only negligence that was set up. There was nothing to show that, until the accident occurred, there had been any thing to indicate danger, or to warn the company's servants to cease running the trains. *The verdict was wholly unwarranted.*"[1] The track must be in a safe condition so far as human foresight can accomplish that result, but unless *negligence* in some respect contributing to an injury resulting from defects therein can be

[1] In Pittsburg, Fort Wayne, etc., R. Co. *v.* Gilleland, 56 Pa. St. 445, a similar doctrine was held. See, also, similar in principle, Blyth *v.* Birmingham Water Works Co., 11 Exch. 781; Fast *v.* Third Av. R. Co., 1 Daly (N. Y. C. P), 148.

attributed to the company it is not liable.[1] No precise rule of diligence can be stated, but the company is bound to construct its roadway in such a manner as to be able to resist all such action of the weather, from floods or whatever cause arising, that may be expected to occur, although only at long intervals, and as a necessary sequence, if *extraordinary* or unprecedented floods have once occurred, it must redouble its vigilance, and place its embankments in such a condition as to resist another of similar severity or intensity.[2]

Sec. 494. **Care required of railroad corporations in relation to engines, cars, track, etc.** — The same degree of care is required in the selection of engines and cars, and other appliances for the prosecution of the business.[3] The company is not exonerated from liability for injuries resulting from defects in its vehicles, because it purchased them from competent manufacturers, but is responsible for defects therein resulting from the negligence of the manufacturers, precisely the same as it would be if it manufactured them itself.[4] It is not responsible for *all* defects therein, but only for such as could have been ascertained by the exercise of the highest degree of vigilance,[5] or, in other words, for defects which could not have been detected by any degree of care or skill, either in the course of manufacture or afterward.[6] In New York a different rule of liability has been held, and the company is held to be bound at its peril to provide safe cars, and is responsible for injuries resulting from defects therein, irrespective of the question of negligence.[7]

The rule in reference to the degree of vigilance to be observed was well expressed in an English case, previously cited.[8] In that

[1] Toledo, etc., R. Co. *v.* Apperson, 49 Ill. 480; Reed *v.* N. Y. Cent. R. Co., 56 Barb. (N. Y.) 493; Gonzales *v.* N. Y. Cent. R. Co., 39 How. Pr. (N. Y.) 407.

[2] Great Western R. Co. of Canada *v.* Fawcett, 1 Moore's P. C. C. (N. S.) 101.

[3] Readhead *v.* Midland R. Co., L. R. 2 Q. B. 412; Burns *v.* Cork, etc., R. Co., 13 I. R. C. L. 543; Grote *v.* Chester, etc., R. Co., 2 Exch. 251.

[4] Burns *v.* Cork, etc., R. Co., *ante*.

[5] Stokes *v.* Eastern Counties R. Co., 2 F. & F. 691; Manser *v.* Eastern Counties R. Co., 31 L. T. (N. S.) 585.

[6] Readhead *v.* Midland R. Co., L. R., 4 Q. B. 379.

[7] Alden *v.* N. Y. Cent. R. Co., 26 N. Y. 102.

In Hegeman *v.* Western R. R. Co., 13 N. Y. 9, the plaintiff was injured by the breaking of an axle, from a latent defect *which could not have been discovered by the most vigilant examination*, and the company was held chargeable.

[8] Manser *v.* Eastern Counties R. Co., 31 L. T. (N. S.) 585.

case, an action was brought by the plaintiff to recover damages for injuries sustained by him whilst traveling on the defendants' railway, as he alleged, from the negligence of the company. It arose from an imperfect weld in the formation of a wheel — in this case the driving-wheel. It appears in this case, that driving wheels are usually formed in the first instance with a thickness of about 2¼ inches. They are allowed to run some time, and then ground down or re-turned for the purpose of making them again smooth; and this operation is performed about three times. Ultimately the thickness of the wheel is reduced from about 2½ or 2¼ inches to about 1¼. If it happens to be below 1¼ it is considered worn out, and should not be continued in the use. About three times a wheel may be re-turned; or it may be re-turned only twice, but with three different thicknesses. Before it is used the first time it should be hammered all round and all over to test its soundness, and to ascertain, as far as it is possible to ascertain, if it be perfect, whether it will ring, and is sound in every part. This wheel had been so tried before it was used. It had run many thousands of miles, and had been reduced ¼ or ½ an inch of its thickness. But although the wheel had been tested by the universal hammering in the first instance, it had not been subjected to that test after it had been reduced in thickness by wear. The wheel was defective, it gave way, and hence the accident.

The cause was tried in London before the Lord Chief Bnron, when the jury returned a verdict for the plaintiff, for £2,000, damages.

CHANNELL, B., said: "This was an action brought to recover compensation in damages for injuries sustained by the plaintiff, owing to the alleged negligence of the defendants. * * *

"The Lord Chief Baron, in summing up, appears to me (if I may take the liberty of saying so) to have left the case at the trial to the jury very fairly toward the company. There were certain passages selected by Mr. Bovill, and strongly commented on, but there were other passages in the summing up to which the attention of the court was called, and to which it will be necessary, I think, we should advert. His Lordship, after stating the nature of the action, said: 'With respect to the law there

is really no doubt whatever. If every part of the case was as clear and undoubted as the legal questions that arise, there would be very little difficulty indeed in disposing of the case, without any trouble whatever. There can be no doubt that in point of law the defendants are bound to provide carriages and other appliances which shall present every reasonable prospect of safety. They are bound to guard against every source of danger that they can foresee. But if the case stated by Mr. Bovill for the defendants be made out in point of fact, as to which there is contradictory testimony, which it is for you to decide — if that case be made out in fact, then undoubtedly the defendants would be entitled to your verdict. The defendants are not liable for any cause of danger that cannot be foreseen by the exercise of reasonable care and caution in preparing for the journey; and if, therefore, the entire cause of accident was this defective weld, which was not known, and could not, by any reasonable skill, care or prudence, be discovered, then the defendants are entitled to your verdict.' The law in that respect was laid down as favorably to the company as the company had a right to expect. That was his Lordship's observation at the commencement of the summing up; at the end of the summing up, in substance, that direction is repeated, his Lordship saying, it is important that every attention should be paid to the machinery, 'in order that the lives of the passengers may be placed in as much safety as possible.' He goes on to say: 'The company, however, are not bound to do that which is impossible; they are not bound to see that which is invisible, but they are bound to take every precaution. It is entirely, gentlemen, for you to decide whether in your judgment they have done every thing which their situation in providing conveniences for passengers required of them, and whether there was any deficiency, or whether they entirely and perfectly discharged that duty. If they entirely performed it, I think they are entitled to your verdict. If they did not, if there was any thing that might reasonably be required of them under the circumstances which in your judgment they did not perform, I think they would be liable, and it would be entirely for you to say what damages the plaintiff would be entitled to in the event of your thinking him entitled to your verdict.' Now, it is impossible, I think, that the

rule could be laid down more correctly than it was, both at the commencement and the conclusion of his Lordship's summing-up. But there were particular passages in the course of the summing-up, which were excepted to. This passage was excepted to. Mr. Bramwell,[2] an engineer, had been called on the part of the plaintiff, and in the course of his cross-examination he said: 'I know of no mode of discovering the defect; if the tire be struck that may or may not detect it.' Now, it is quite clear, looking at the cross-examination of Mr Bramwell, and of all the other witnesses, what was meant to be stated was this: there was no test that was absolutely fixed — no test that, in every instance, would turn out to be sure and successful; but it cannot be contended a test ought not to be adopted, if it is a useful one, and may reasonably be expected to bring about the result, because it is not absolutely fixed. Now, the particular remark that was objected to was this: 'In all probability, if this tire had undergone the process not merely of ringing it with a hammer to see whether it was sound, but of hammering it all round and all over, the defect would have been discovered, because there can be no doubt, in regard to a bell which is now silent (but which we heard for some time as if the whole material of the clock at Westminster were perfect), it was cracked, but continued to strike; and nobody was aware of it. Somebody observed on a rainy day, when the bell was struck and the water trickled down, it had a tremulous motion on each side, and the vibrations were not perfectly equal. The man called somebody to watch it, and then they discovered that the bell was cracked. So that there can be no doubt that merely going to a tire and striking it with a hammer will not tell you.' That is the substance of my Lord's observation. It was an observation founded on experience — that the test of the hammer upon the tire would enable you to see whether the tire would ring where it was cracked in one part. But what was contended for on the part of the plaintiff was, the tire should have been hammered all over; and there was a body of evidence and an important witness to that point. There was abundant evidence to show, when the tire had been re-turned, as it is called, if it had been hammered all over, in all probability this defect would have been discovered.

It appears that there is nothing in my Lord's observations that can warrant any objection on the score of misdirection. * * * A witness had said: 'It should have been hammered all round.' My Lord goes on to explain what is meant by that: — 'What he means by that, I suppose is, that they should not merely strike it with a hammer to see whether it would ring, which, no doubt, a cracked piece of metal would, but they should have hammered it all round to ascertain; and certainly, as the iron becomes less and less, no doubt that is a sort of care which should be taken, because by the hammering you may stumble upon some particular spot that is defective. One of the witnesses for the defendants told us to-day, that there was a thickness as of a piece of paper — a thickness over the imperfection in the weld, and if you came to hammer there, there is no doubt, I think, that you would discover that.' Now, my Lord certainly expresses his own opinion; if the weld had been reduced to this thinness, as appeared from one of the defendants' witnesses, in his judgment, if it had been hammered all over, the defect would have been discovered. Though my Lord expresses that opinion, he does not withdraw it from the consideration of the jury, but he goes on to say: 'You must judge for yourselves. I have no doubt, gentlemen, that if not all of you, a great many of you, must have the means of judging upon that subject quite as well as any of the witnesses, and probably much more than myself.' That was an opinion certainly given by my Lord as to a point that arose in the course of the evidence — an opinion in which few would disagree; but whether it be right or wrong is not the question we have to determine. The matter was not submitted to the jury as a matter of law — it was not decisive of the evidence; but the question was left to the jury that they might exercise fully and freely their judgment upon the subject. Now, the only other passage that was objected to was a passage to this effect: — 'I cannot help saying, in passing, that it appears to me, before an old tire is ever sent to be re-turned, and put in use for the purposes of a leading wheel, it ought really to be hammered all over; because there may be (and this is an illustration of it) a wheel that has performed thousands of miles with perfect safety, which has apparently got the best character that a wheel can have, but it turns

out to have been ground down until you came to within, according to the case of the defendants, a surface not thicker than paper, that separated you from an imperfect weld. You are quite as well able to judge as I am. If that were accurately tested by hammering over every part of it, you would say whether that would not certainly be discovered. If there was nothing but the thickness of a piece of paper to separate you it might not be visible to the eye, but it must be ascertainable by a hammer, which would certainly give a different sound when you came to that spot.' Again: my Lord expresses an opinion in which I entirely concur, and it appears to me to have been correct upon the evidence. But my Lord did not express his opinion at all to the contrary, or fetter the jury; the question was left fully and freely to them to exercise their own judgment upon. It appears to me there is no ground whatever for saying there was any misdirection of which the defendants have a right to complain, and it really was hardly insisted on that there was no evidence to go to the jury; it is enough to say, the evidence of Mr. Bramwell, the evidence of Sir C. Fox, the evidence of Mr. Braithwaite, and the evidence of Mr. May, formed a strong case on the part of the plaintiff to go to the jury, which my Lord could not have refused to leave to them. I am clearly of opinion that, had he done so, the plaintiff would have had good ground for excepting that the evidence had not been submitted to the jury as it ought to have been. Then, as to the case of the verdict being against the weight of evidence, no doubt there was a strong body of evidence on the part of the defendants. No doubt many witnesses were called, witnesses of experience and respectability, and one would not necessarily be dissatisfied if the jury had found upon the evidence a verdict for the defendants. On the other hand, there was strong and positive evidence on the part of the plaintiff. I cannot say the jury have come to a wrong conclusion. I am not called on to say I should have found the same verdict myself. I can see no ground for expressing any judicial dissatisfaction with the verdict of the jury. I would refer to one witness as a witness of very considerable importance — Sir Charles Fox — who gave evidence having a most material bearing upon the case. He was engaged largely in the manufacture of wheels of all descrip-

tions, and he was asked whether he adopted any process to test the tire. He was asked, 'Do you hammer it?' and he says: 'The process upon which I have manufactured all my wheels has been this, to let all the different parts of the work be done by piecework, so that if a man found a defective bar he did not get paid for bending. If a man had to bend a defective bar, or bend a good bar, and bent it improperly, we did not pay for them, so that every man was looking back through the whole process of the manufacture up to the last; and then we have a gentleman to whom we pay 300*l.* a year to examine every wheel.' So that this gentleman kept a person in his employ at a considerable salary for no other purpose than to test wheels when they were made. He says they are tapped with a hammer, and when he is asked how tires are tested, he says no defect would be passed over with the hammer. No witness pretended to say it was an absolute and positive test, but there is no excuse for not adopting it, if it can be reasonably expected to produce a satisfactory result. This was the universal process adopted by this gentleman at a considerable cost and expense. He is asked this question: 'Have you found any returned to you after being passed by you as complete?' 'We guaranteed all the wheels we made for twelve months, and having turned out 20,000 wheels for several years, I think the whole amount of our guarantee has been twenty-four.' Now, the wheel in question had been reduced a considerable size; it was reduced to a small thinness; it was blocked and re-turned, and if this process had been adopted, not to hammer any one part to see whether it would ring, but to hammer it all over, as was the universal practice on the part of Sir Charles Fox, a practice carried out at a considerable expense, it was for the jury to say whether the defect might not have been discovered. I repudiate the notion altogether that a process ought not to be adopted, because of necessity you would not arrive at a positive test. It seems to me there is no ground for saying the verdict is against the weight of evidence, and that a new trial should be granted. Therefore, having at my Lord's request gone carefully through the evidence, I repeat the opinion I was prepared to give when the rule was moved, that the verdict ought to stand."

Pollock, C. B., said: "I entirely agree with the rest of the

court on the subject of refusing the rule why there should not be a new trial. When Mr. Bovill moved this rule, he certainly took a very strong view of the case on the part of the defendants, it appeared to me it was desirable that the matter should be looked into with very great care, in order that no mistake might be made. I am very much obliged to my learned brothers who have taken the trouble of going through the short-hand writer's notes which Mr. Bovill furnished us with. A very strong statement made by Mr. Bovill I own rather startled me. I certainly did not recognize, in his statement of the matter, any thing like what I remember to have been said in the course of the trial. According to his statement, certainly, at one time, there was no evidence whatever to support the view that had been presented to the jury, as he said, under the authority of the Bench. On turning to the evidence, certainly it appeared there was abundant material for the remark that was presented to the jury by me, but which was left entirely to them, not at all pressing my opinion upon them, but stating, it appeared to me, that any person conversant with machinery, and the ordinary business connected with such matters, would probably be far better able to judge than I was of the point. There was much other important matter upon which the jury might have decided, and very likely did decide, the case; but as far as this point was concerned the question was this — about the nature of the accident there was no doubt whatever, it arose from an imperfect weld in the formation of a wheel — that was the driving-wheel. A driving-wheel is formed in the first instance with a thickness of $2\frac{1}{2}$ inches; it is allowed to run some time, and is then ground down, or re-turned, for the purpose of making it again smooth, and this operation is performed about three times; ultimately the thickness of the wheel is reduced from $2\frac{1}{2}$ or $2\frac{1}{4}$ to $1\frac{1}{4}$; if it happens to be below $1\frac{1}{4}$ they consider it is worn out, and do not continue it in the service. About three times is the number of times that a wheel may be re-turned, or twice it may be re-turned, so that it is put into use with three different thicknesses. Now, the first time, before it is used at all, it is hammered all over. I cannot understand the expression, but the expression in the evidence was, 'hammered all round;' which I apprehend to be testing with the hammer not

merely whether it will ring, but whether it is sound in every part. Now, if it be worth while to do that when the wheel is first in its state of newness, in order to test it by applying the hammer to every part of it, to see whether it be sound or not, it surely must be worth while, every time you take away from it a quarter or half an inch of its thickness, in order to prepare it for a fresh journey. That was the question the jury had to decide; and I agree with my learned brothers that the law was laid down correctly, and as favorably for the defendants as it could be. The question then would be — *Did they use any reasonable precaution in order to discover whether the wheel in its last condition was fit for service?* Why it appeared to be perfectly clear upon the evidence that, though they had tested the wheel by the universal hammering in the first instance of applying it to the purposes of a locomotive, it had never been subjected to it since, and an imperfect weld, which may be imperceptible to the hammer when the wheel is 2½ inches thick, may be quite perceptible when the wheel is reduced to 1½. Therefore it was a question for the jury. There was evidence that they actually applied the test when the wheel was new; there was evidence that they had not applied it when the wheel was turned the first time, and when it was turned the second time; and I think it is no answer in fact or law to say that the test is not decisive. It might have escaped the discovery, notwithstanding the test had been applied, because at the time of the accident all parties were perfectly agreed that it was an imperfect weld, which gradually came to the surface at the time of the accident. The witnesses for the plaintiff said in their judgment it was apparent that the thinness of paper had been worn through. By the evidence of the witnesses for the defendants, the thickness was no more than the thickness of a bit of paper, and the question is whether, if it had been hammered, it would not have disclosed by the sound, immediately, that there was some imperfection below, and that it was not sound. Under these circumstances I perfectly concur in the opinion expressed by my learned brothers, that there should be no rule in this case."

This rule seems to be more consistent with principle, and better calculated to subserve public interests than that adopted in

New York ;[1] particularly when coupled with another rule, that the mere fact that the vehicle was defective, *prima facie*, raises a presumption of negligence.[2]

But this rule seems to have been essentially modified by later decisions in that state, and there would seem to be no question that some negligence is now required to be shown in order to uphold a recovery.[3]

There seems to be an inconsistency in holding the company up to such a rigorous rule of liability as to cars, when no such rule prevails *as to the track* over which the cars are propelled. If it be said that the reason results from the fact that the cars are *manufactured*, and therefore the company is bound, at its peril, to know of the existence of latent defects, it may be answered that the same is true of the track. It is manufactured so to speak, and the same rule should apply to that, as applies to the cars. Yet, the courts of New York hold that as to the track and its management, the company is exonerated from liability, if it has exercised the highest degree of care in respect to it.[4]

So, it has been held that an accident resulting from the misplacement of a switch, by "some evil-disposed person," not connected with the company, the company being chargeable with no fault, is an *inevitable accident* for which the company is not responsible.[5]

In the selection of rails, and other materials of which its track is composed, as well as in the construction of its roadway and bridges, it is bound to exercise the highest degree of care, and apply all those tests usually applied for ascertaining their suitableness, and, having done that, and keeping up the same degree of vigilance in ascertaining whether it subsequently becomes defective, it is not responsible for injuries resulting from defects, *in spite of such vigilance*.[6] It is difficult to conceive how a person or corporation can be held chargeable with negligence, when he has exercised the highest degree of care to prevent the injury.[7]

[1] Frink *v.* Potter, 17 Ill. 406 ; Ingalls *v.* Bills, 9 Metc. (Mass.) 1.

[2] Dawson *v.* Manchester, etc., R. Co., 5 L. T. (N. S.) 682 ; Brignoli *v.* Chicago, etc., R. Co., 4 Daly (N. Y. C. P.), 182.

[3] Deyo *v.* N. Y. C. R. Co., *ante*.

[4] Keeley *v.* Erie, etc., R. Co., 47 How. Pr. (N. Y.) 256.

[5] Frink *v.* Potter, 17 Ill. 406 ; Deyo *v.* N. Y. C. R. Co., 34 N. Y. 9.

[6] Nashville, etc., R. Co. *v.* Messino, 1 Sneed (Tenn.), 220 ; Deyo *v.* N. Y., C. R. Co., *ante*.

[7] In Frink *v.* Potter, *ante*, where a passenger was injured by the breaking of an axle from the effect of frost,

It must exercise the highest degree of care in all respects involving the safety of passengers, and if guilty of *any, even the slightest negligence*, it is responsible for all injurious consequences.[1]

Sec. 495. **Duty of railroad company as to stations.** — It is bound to keep its stations and premises in proper repair, so as to prevent injuries to passengers going to them to take, or arriving there *upon*, their trains,[2] and a passenger arriving at the station continues to be a passenger until he has left their premises. So, too, a person *bona fide* at the station for the purpose of taking passage upon a train, is a passenger, although he has not in fact purchased his ticket.[3]

Sec. 496. **Instances of negligence, where the corporation was held liable.** —Actions have been upheld for injuries sustained from defective platforms;[4] from a failure to provide suitable lights to enable pas-

the court held that, if the defendant was guilty of *any*, even the slightest negligence in not providing against such a result, it was liable. This is equivalent to holding that, if by the exercise of any reasonable precaution the result could have been averted, the defendant was bound to exercise such precaution, and failing to do so, was liable for negligence. See, also, Dawson *v.* Manchester, etc., R. Co., *ante;* Toledo, etc., R. Co. *v.* Apperson, 49 Ill. 480; Reed *v.* N. Y. C. R. Co., 56 Barb. (N. Y.) 493; Gonzales *v.* N. Y. C. R. Co., 39 How. Pr. (N. Y.) 407.

[1] Gaynor *v.* Old Colony R. Co., 100 Mass. 208.

[2] McPadden *v.* N. Y. C. R. Co., 44 N. Y. 478.

The fact that the vehicle or track is defective and an injury results, is *prima facie* evidence of negligence. Brignoli *v.* Chicago, etc., R. Co., 4 Daly (N. Y. C. P.), 182.

[3] Buffett *v.* Troy and Boston R. Co., 40 N. Y. 168.

[4] As where the flaps were improperly turned back. Bramwell, B., in Cornman *v.* Eastern Counties R. Co., 4 H. & N. 784.

In McDonald *v.* Chicago, etc., R. Co., 26 Iowa, 124, the plaintiff, in company with her husband, purchased a ticket at Cedar Rapids upon the defendants' line of railway to Fulton, Ill. In attempting to get aboard the train some twenty minutes before it was time for it to leave, and at a point some distance from the usual place, she stepped upon the end of a plank in the platform which, being loose and out of place at one end, gave way, and let her down upon the track headforemost under the train, breaking her leg and otherwise injuring her. It was so dark that the plaintiff could not see the condition of the plank. The defendants showed that the point at which the injury happened was some 300 feet from the station, and that the usual place for passengers to get on or off the train was at a point immediately in front of the station.

It was also shown by the defendant, that it was customary when the train arrived, as in this instance, from the west, to run back so as to bring the baggage and express cars to a point opposite the freight depot for the purpose of discharging and receiving baggage and express matter. This movement, on the evening on which the accident in question happened, placed the passenger coaches west of the west end of the platform, so that the nearest passenger car was about one car-length beyond the steps at the west end of the platform. It was while the cars were thus standing that the plaintiff, without waiting for them to be drawn up to the platform in front of the passenger depot, started for them, walking the whole length of the platform, and in descending the

sengers safely to leave the premises;[1] from defective steps to platform;[2] from pits or unfenced holes in the station ground,[3] from the slipperiness of stairs leading to the station;[4] from allowing articles to

steps the injury for which this action was brought happened. Defendant also produced evidence to the effect "that there was plenty of room to get on and off the trains from the platform; and that there was no necessity for any one to go down these steps to get on. Before leaving trains always draw up in front of the passenger depot and stop to take on passengers. The accident happened fifteen or twenty minutes before the leaving time of the train. The steps are not intended or used for passengers to get on the trains."

The defendant asked the court to give the following instructions, viz.:

"1. If the jury believe from the evidence that the defendant, at the time of the alleged injury at the station at Cedar Rapids, was provided with a safe and suitable platform in front of and adjacent to the passenger rooms of said station, so that passengers could safely and conveniently pass from said room to the trains, and that passenger trains stopped at said platform for the purpose of receiving passengers, and if said plaintiff, in attempting to get upon said train by a different and unusual way and at a different and unusual place, met with said accident, then the plaintiff is not entitled to recover in this action.

"2. That if the plaintiff, Margaret McDonald, attempted to enter said

[1] Patten *v.* Chicago, etc., R. Co., 32 Wis. 524; Nicholson *v.* Lanc. & Yorkshire R. Co., 34 L. J. (Exch.) 84; Birkett *v.* Whitehaven Junc., 4 H. & N. 730; Martin *v.* Gt. Northern R. Co., 16 C. B. 180; Cornman *v.* Eastern Counties R. Co., 4 H. & N. 781; Toomey *v.* London, etc., R. Co., 3 C. B. (N. S.) 146; Foy *v.* London, etc., R. Co., 18 id. 225.

[2] McDonald *v.* The Chicago, etc., R. Co., *ante.*

[3] Burgess *v.* R. Co., 95 Eng. Com. Law, 923.

In Tobin *v.* Portland, Saco & Portsmouth R. Co., 59 Me. 183, the liability of railroad companies to persons coming to their stations upon business, and not as passengers, for injuries caused by defects in station platforms was adjudicated, and it was held that a hackman could recover of a railroad company for an injury received while carrying a passenger to their depot for transportation, by stepping, without fault, into a cavity in the platform negligently left in a defective condition. It is the well-settled rule that railroad companies are bound to keep their platforms and landing places safe and convenient for all who make use of their cars as a means of conveyance. But it is not so clear what the liability of the company is, in this respect, to persons not passengers. But APPLETON, C. J., in delivering the opinion of the court in this case, said: "The hackman, conveying passengers to a railroad depot for transportation, and aiding them to alight upon the platform of the corporation, is as rightfully upon the same as the passengers alighting. It would be absurd to protect the one from the consequences of corporate negligence and not the other. The hackman is there in the course of business; but it is a business important to and for the convenience and profit of defendants. The general principle is well settled that a person injured, without neglect on his part, by a defect or obstruction in a way or passage over which he is induced to pass, for a lawful purpose, by an invitation, express or implied, can recover damages for the injury sustained against the individual so inviting and being in fault for the defect." Barrett *v.* Black, 56 Me. 498; Carleton *v.* Franconia Iron and Steel Company, 99 Mass. 216. From the general duty which railroad companies owe to persons thus apparently invited, such as friends and companions of passengers, porters and hackmen, it would seem that they are responsible for injuries resulting from a neglect of that duty in respect to platforms, station approaches etc.

[4] Davis *v.* London, etc., R. Co., 2 F. & F. 588.

stand or lie upon the platform obstructing and endangering travel over it, as a switch handle;[1] and generally the company is bound, as to its passengers or persons upon its premises "by invitation," to see to it that its premises are in such a condition, *in all respects*, that a person in the exercise of ordinary care can leave them without injury, and this extends to and embraces proper and suitable platforms, steps and walks, as well as suitable lights.[2]

train at a place not prepared or designed by the defendant for receiving passengers on trains, there being no paramount necessity for so doing, and in making such attempt she received the said injury, then her own fault contributed to the same, and the plaintiff cannot recover.

"3. The liability of the defendant as a common carrier did not commence as to the plaintiffs until the train which they were to take was drawn up to the usual place for receiving passengers, unless they were directed by some authorized agent of defendant to go upon the train at another and different place or before the train reached the usual place."

Each of these was *refused*, and the defendant excepted.

The court, after referring to the issues made by the pleadings, charged the jury as follows:

"The principal question for you to determine is, by whose fault or negligence did the accident occur? If one of the steps was loose and not nailed down, by reason of which the accident happened, it is such a want of care as would render the defendant liable, unless you find that the accident happened, or was contributed to, by the want of ordinary care and prudence on the part of the plaintiff. It is for you to determine from the evidence whether the plaintiff used ordinary care and prudence in leaving the depot and going to the cars by the way and at the time she did, and by ordinary care is meant such care and prudence as an ordinarily prudent person would exercise under like circumstances. If you find that an ordinarily prudent person would not have gone down the steps of the platform where the accident occurred, but would have waited until the passenger cars were opposite the passenger depot, then the defendant is not liable. And if you find that the plaintiff went by a way which was not used or traveled over by passengers to enter the cars, and that a person of ordinary prudence would not have gone by that way, you may fairly infer that there was a want of ordinary care on her part. Passengers must exercise ordinary care in approaching and entering the cars. If, however, you find that the defendant backed its train up to the place where it stood when the accident happened; that persons could conveniently and safely approach the train where it then stood but for the defective step, and there was no rule or regulation of the company prohibiting persons from approaching the cars by that way, and that an ordinarily prudent person would have approached the train by that way, the defendant is liable, if the accident occurred by reason of the defective step."

The defendant excepted to this charge, and it was fully sustained on appeal by the supreme court of Iowa.

Actions have been upheld for injuries resulting from defective depot, floors. Liscombe *v.* Jersey, etc., R. Co., 6 Lans. (N. Y.) 75; from defective platforms. Tobin *v.* Portland, etc., R. Co., 59 Me. 183; Seymour *v.* Chicago, etc., R. Co., 3 Biss. (U. S. C. C.) 43; McDonald *v.* Chicago, etc., R. Co., 26 Iowa, 124; and generally for injuries resulting upon their premises without the fault of the passenger, from defects thereon, or obstructions thereon. Burgess *v.* Railroad Co., 95 Eng. Com. Law, 923.

[1] Martin *v.* Great Northern Railway Co., 16 C. B. 179.

[2] Cornman *v.* Eastern Co. Railway Co., 4 H. & N. 781.

In Beard *v.* Conn. & Pass R. Co., 48

SEC. 497. **Duty of railroad corporations as to stopping of trains.** — The trains must also be stopped at the station so that passengers can alight upon the platform, and if they are stopped at any other place, and the station is called, so that passengers are required, or have a right to understand that they are required to stop there, the company is liable for injuries received in leaving such place, to the same extent and upon the same ground that it would be liable for injuries received by the defectiveness of its own premises.[1]

Vt. 101, the plaintiff was at the defendant's depot for the purpose of taking the train. There was a platform extending from the east side of the depot to the track over which passengers passed in going to and from the cars. There were stairs leading through the center of the depot to the street on the opposite side which was several feet lower than the track, and there were also stairs at either end of the depot, leading from the platform to the street. The stairs at the north end of the depot were open at the top, and there was nothing to indicate that they were not for the use of passengers. In fact they were built by and were intended for the sole use of the express company, but they were on the defendant's premises. The plaintiff in attempting to pass down these stairs in the dark from the upper platform to the street, *without fault on her part*, fell from the lower platform to the ground and was injured. It was held that the defendant was responsible for the injury

[1] Columbus, etc., R. Co. *v.* Farrell, 31 Ind. 408; Memphis, etc., R. Co. *v.* Whitfield, 44 Miss. 466.

In Delamatyr *v.* The Milwaukee, etc., R. Co., 24 Wis. 578, the plaintiff received an injury while descending from the defendant's train at Hanover Junction, as was alleged, by reason of the defendant not having furnished a safe and proper means of descent. The train consisted of only two cars, of which the one in the rear was the ladies car, and the other a gentleman's car, immediately in front of which was a baggage car. When the train stopped at the junction the plaintiff was seated in the ladies' car. *By direction of the brakeman* she passed through the gentleman's car to the car platform at its front end, for the purpose of descending them. The steps attached to this platform had not been drawn up opposite to the station walk or platform. The platform was only a few inches above the rail, and nearly two and a half feet below the lower car step, and was over three feet from the rail horizontally. The plaintiff could not reach the station platform, by stepping down in the usual manner, but was obliged to jump some distance obliquely. The ground immediately opposite the steps was muddy and slanted away rapidly from the ends of the ties, so as to make a kind of pit, unsuitable for a landing place. The sister of the plaintiff had got off at this point, safely, immediately before the plaintiff attempted to do so. The plaintiff descended to the lower step holding a sunshade and basket in one hand, and her skirts with the other, hesitated, and made some remarks about the impracticability of alighting there, but being encouraged by her sister, took the hand of the latter and sprang for the platform. As she sprang, her skirts caught upon a part of the brake, and she fell in such a way that her head and shoulders and a considerable portion of her body rested upon the station platform, and in the fall, broke her arm. No officer or employee of the company was present to aid her in alighting. Under this state of facts it was held that the plaintiff was entitled to recover. In commenting upon the question whether the plaintiff, under the circumstances, was guilty of such contributory negligence as would prevent a recovery by her, COLE, J., very pertinently said: "As a matter of law, to characterize this conduct of hers as careless and negligent, would seem to be manifestly un-

So, too, it is the duty of the company to stop its train at a station long enough to give all passengers desiring to stop there time to get out of the cars, and failing to do so, if a passenger while the cars are in motion, but before they have acquired *rapid* motion, jumps from the cars and is injured, the company is liable therefor.[1]

warranted," and it was left for the jury to say, whether in fact the conduct of the plaintiff was so negligent as to estop her from a recovery.

A similar doctrine was held in Robson *v.* The N. E. R. Co., L. R., 10 Q. B. 271, where a passenger of a railway is invited to alight at a spot where there is no platform, so that usual means of descent are absent, the duty of the railway company not to expose the passenger to undue danger requires them to provide some reasonably fit and safe substitute; and, in the case of a female passenger, a jury may reasonably find that the company fails in this duty where the only means of alighting provided are the usual iron step and footboard, with no attendants to assist the passenger in alighting. Plaintiff, a female, was a passenger by defendant's railway to B., a very small station; on the arrival of the train at the station the engine and part of the carriage in which plaintiff was riding were driven past the end of the platform, which is short, and came to a standstill, the door of the plaintiff's compartment being beyond the end of the platform. Upon the train stopping, plaintiff rose and opened the door, and stepped on to the iron step; she looked out and saw the station-master, who is the only attendant kept there, taking luggage out of or putting luggage into a van. She did not see the guard or any other railway servant, and she stood on the step looking for somebody to help until she became afraid of the train moving away; and, no one then coming, she tried to alight by getting on to the footboard; she had her back to the carriage, and she had hold of the door with her right hand, and got one foot on to the footboard, and whilst endeavoring to get the other foot on to the footboard she lost her hold of the carriage door, and slipped, and fell, and was injured. She had a small bag on her left arm, and an umbrella and two small articles in her left hand, but nothing in her right hand. The judge having nonsuited the plaintiff on the above evidence, with leave to enter a verdict for the plaintiff, *held*, first, that there was evidence from which a jury might have properly found that the plaintiff was invited or had reasonable ground for supposing she was invited to alight by the company's servants; and that the defendants had failed in their duty toward the plaintiff, and had not provided a reasonable substitute for a platform. Also, that the jury might not improperly have found that the expectation of being carried beyond the B. station was reasonably entertained by the plaintiff, and that the inconvenience would have been such as not to render it imprudent on her part to expose herself to the danger incurred in alighting; and that the defendants were, therefore, liable for the injury resulting from the plaintiff's act, which had been caused by their negligent breach of duty. And that the nonsuit was therefore wrong, and the verdict ought to be entered for the plaintiff.

In Indianapolis R. Co. *v.* Farrell, 31 Ind. 408, the train ran beyond the platform where passengers were usually landed and stopped over a culvert, and the railroad hands, whose duty it was to announce the stations, announced the station. The plaintiff, without fault on his part, in getting off from the train (it being so dark that he could not see where the train was), fell into the culvert and was injured, and it was held that he was entitled to recover.

[1] Filer *v.* N. Y. C. R. Co., 49 N. Y. 47; Loyd *v.* Hannibal, etc., R. Co., 53 Mo. 509; Illinois Cent. R. Co. *v.* Able 59 Ill. 131.

"It is the duty of railway passenger carriers," say the court in *McDonald* v. *Chicago, etc., R. Co., ante*, "to provide comfortable rooms for the accommodation of passengers, while waiting at stations, and to enforce such regulations, in regard to smoking therein, as to enable passengers to occupy them in reasonable comfort. If this is not done, it will afford reasonable excuse for passengers to enter the cars before they are drawn up in front of the platform in preparation for immediate departure. And, if in so doing a passenger sustains injury through a defect in the platform, against or opposite which the cars are standing, * * * the company will be held responsible. Railway passenger carriers have power to make reasonable rules and regulations, in regard to the conduct of passengers, extending to the time and mode of entering the cars; but such rules and regulations must, in some way, be made known to passengers, or they will not be in fault for not conforming to them." It was, accordingly, held, in this case, that the female plaintiff, who found the passenger room unfit for occupation, by reason of tobacco smoke and other impurities, and attempted to enter the cars which had not yet been drawn up to the platform, and was injured by the giving away of the steps at the end of the platform, was entitled to recover. DILLON, C. J., laid down the following rule as applicable to all cases of injury

But it seems that no recovery can be had if the cars are under such motion as to render it obviously dangerous for a person to attempt to leave them. Damont *v.* N. O., etc., R. Co., 9 La. Ann. 441; Jeffersonville, etc., R. Co. *v.* Hendricks, 26 Ind. 228; R. Co. *v.* Aspell, 23 Pa. St. 147; Gavett *v.* Manchester, etc., R. Co., 16 Gray (Mass.), 501; and under such circumstances it is not sufficient to charge the company that the conductor advised the passengers to make the attempt. It is the duty of the passenger to exercise his own judgment, and if the danger was so great that a man of ordinary prudence would not have attempted it, he is guilty of such contributory negligence as bars a recovery. Chicago, etc., R. Co. *v.* Randolph, 53 Ill. 510; Jeffersonville, etc., R. Co. *v.* Swift, *ante;* Chicago, etc., R. Co. *v.* Hazzard, 26 Ill. 373.

When the danger is apparent it must not be braved simply because the company is bound to stop the train, or because it is very important that the passenger should stop at that particular time. The company, in such case, is bound to respond in damages for its breach of duty in not stopping, *but is not liable for injuries received by the passenger in attempting to leave when it is dangerous for him to do so.* Georgia R. Co. *v.* McCurdy, 45 Ga. 288.

But in all cases the question of liability must necessarily be determined by the facts and circumstances of each case. Whether the train was in rapid motion, whether the train was started while the passenger was attempting to leave, and whether the real danger was obvious. Jeffersonville R. Co. *v.* Hendricks, *ante*. But see Burrows *v.* Erie R. Co., 3 T. & C. (N. Y.) 44, in which it was held that no recovery could be had where the injury was brought about by the action of a person not in the employ of the company.

about stations and in entering cars: "Railway companies are bound to keep in a safe condition all portions of their platforms and approaches thereto, to which the public do or would naturally resort, and all portions of their station grounds reasonably near to the platforms, where passengers, or those who have purchased tickets, with a view to take passage on their cars, would naturally or ordinarily be likely to go." [1]

Railway companies are bound to bring their trains to a halt at places convenient for passengers to alight.[2] In *Cockle* v. *South-eastern Railway Company*, *ante*, it appeared that the car in which the plaintiff rode, being the last car, remained about four feet from the platform when the train had stopped, and the plaintiff,

[1] Barges *v.* R. Co., 95 Eng. Com. L. 923; Martin *v.* R. Co., 81 id. 179.

In Shepperd *v.* The Midland Railway, 20 W. R. 705, the plaintiff, while waiting for the train, it being cold, walked back and forward on the platform in front of the station, and slipping on a strip of ice, fell, dislocating his shoulder. Held that he could recover.

In Caswell *v.* Boston & Wor. R. Co., 98 Mass., it was held that where a passenger had stepped upon the platform in front of the station to wait for a train, and by the negligent misplacement of a switch, an engine appeared to be approaching directly toward the platform, and the passenger had cause to apprehend danger, and, while running to avoid it, was injured, the company was liable.

In Longmore *v.* G. W. Ry. Co., 115 Eng. C. L. 183, it appeared that a railway company, for the more convenient access for passengers between two platforms of a station, erected across the line a wooden bridge which the jury found to be dangerous. Held, that the company were liable for the death of a passenger through the faulty construction of the bridge, although there was a safe one, about one hundred yards further around which the deceased might have used.

In Cockle *v.* S. E. Railway Co., 27 L. T. (N. S.) 320, a railway train in which the plaintiff was a passenger, on arriving at the station of the plaintiff's destination, was drawn up with the body of the train alongside the platform, but with the last carriage, in which the plaintiff rode, opposite a receding part of the platform, at which persons could not alight — a space of about four feet intervening between it and the train. Arriving trains were not usually drawn up at this spot, but at a point farther on, where the platform was well lighted with gas lamps. It was a dark night, and there were no lamps lighted near the place where the plaintiff's carriage stopped. No express invitation to the passengers to alight, and no warning of danger in alighting was given by the company's servants, but the train had come to a final standstill. The plaintiff opened the door of her carriage, stepped out, and fell, and thereby sustained injuries in respect of which she brought her action against the company. Held, by the court (affirming the judgment of the court of comman pleas, and following Præger *v.* The Bristol and Exeter Railway Co., 24 L. T. R. [N. S.] 105), that the action was maintainable; for the leaving a carriage which has been brought up to a place at which it is unsafe for a passenger to alight, under circumstances which warrant a passenger in believing that it is intended she shall get out, and that she may, therefore, do so with safety, without any warning of her danger, amounts to negligence on the part of the company, for which, at least in the absence of contributory negligence on the part of the passenger, an action may be maintained.

[2] Delamatyr *v.* Railroad Co., 24 Wis. 518.

in attempting to alight, believing she was about to step on the platform, fell, in consequence of the insufficiency of light at that point, and was injured. Held, that plaintiff could recover. In this case, COCKBURN, C. J., said: "An invitation to passengers to alight on the stopping of a train, without any warning of danger to a passenger, who is so circumstanced as not to be able to alight without danger, such danger not being visible and apparent, amounts to negligence, * * * and it appears to us that the bringing up of a train to a final stand-still, for the purpose of the passengers' alighting, amounts to an invitation to alight, at all events, after such a time has elapsed that the passenger may reasonably infer that it is intended he should get out if he proposes to alight at the particular station."[1]

Reasonable time for leaving the cars should be allowed, and if the time-tables do not allow sufficient time for all passengers, whether young or old, to leave the cars in safety, and an injury

[1] Præger *v.* The Bristol and Exeter Railway Co., 24 L. T. Rep. (N. S.) 105, was a case exactly similar, and the plaintiff recovered.

In Colorado & Indiana Central Railroad Co. *v.* Farrell, 31 Ind. 408, where the train passed beyond the platform and stopped, leaving one of the cars over a culvert, the conductor announcing the name of the station, and a passenger in attempting to alight was injured by reason of darkness and not being able to see where the car was, the company was held liable. Whittaker *v.* Manchester & Sheffield R. Co., Law Rep., 5 C. P. 464, note 3 was a case precisely similar, and the plaintiff was allowed to recover. But in Bridges *v.* North London R. Co., 24 L. T. Rep. (N. S.) 835; L. R., 6 Q. B. 377, it was held that where a passenger alighted from the last car of a train, while such car was standing in a tunnel in the vicinity of a station, a recovery could not be had for the death of the passenger in consequence, there being no evidence that the train had come to a final stand-still, or to a place where the company designed the passenger should alight.

See, also, Siner *v.* Great Western Railway Co., Law Rep., 4 Ex. 117.

In Frost *v.* Grand Trunk Railway Co., 10 Allen, 387, it was held, that "if a railroad train is stopped at night, merely for the purpose of allowing a train, which is expected from the opposite direction, to pass by, and no notice is given by the servants of the company to passengers that they may leave the cars, one who leaves the cars and walks into an open cattle-guard, and receives personal injury thereby, cannot maintain an action against the company to recover damages therefor; and it is immaterial that he was misinformed by some person not in the employment of the company that he must go and see to having his baggage passed at a custom-house, supposed to have been reached by the train, or that the train was near a passenger station, which was not the place of his destination."

In Forsyth *v.* Boston, etc., R. Co., 103 Mass. 510, where a passenger, on alighting from a car at night, instead of walking along the platform to the end steps, voluntarily stepped off the side into a cattle-guard, although knowing where the highway crossed the railroad track, it was held that he was not in the exercise of due care, and could not recover for injuries thus occasioned.

is thereby occasioned, the company will be liable.[1] But sick persons, and persons unable to take care of themselves should provide themselves with proper assistants while traveling in railroad cars; and if a person is sick and unable to walk without assistance, thereby requiring longer delay at the station than usual, he should give timely notice to the conductor.[2]

Passengers at intermediate stations, where trains stop for refreshments, have the same rights in reference to safe egress and ingress and proper station accommodations and platforms as at the termini of the passage.[3] But the rights of the passenger while a train is stopping at an intermediate station for the purposes of the railroad alone, and not for the refreshment of the passenger, are not so extended.[4]

From the decisions it is apparent that passengers are allowed considerable latitude in traveling by railroad; that the responsibility of railroad companies is made commensurate with the general duties which they owe the passengers, such as safe, convenient and comfortable modes of ingress and egress from trains, platforms, station approaches and passenger rooms; and that the application of the rules of law, both in this country and in England, has been thus far characterized with a due regard both for the rights of the railways and the public.

In an action against a railroad company, for injuries, resulting from attempting to leave the train when in motion, an important element in the case is, whether the train was in fact stopped

[1] Railroad Company *v.* Baddeley, 54 Ill. 19; 5 Am. Rep. 71.

[2] New Orleans, etc., R. Co. *v.* Statham, 42 Miss. 607. In Illinois Central R. Co. *v.* Slatton, 5 Am. Rep. 109; 54 Ill. 133, it appeared that the train upon which the passenger was traveling, having stopped at a station, remained a reasonable time for passengers to alight, but he, not availing himself of the opportunity, waited until the train began to move, when, in attempting to leave the cars, he was fatally injured. Held, that the company was not liable, there being no proof of mismanagement of the train or careless conduct of the employees.

[3] McDonald *v.* Chicago & N. W. R. Co., *ante*.

[4] Frost *v.* Grand Trunk R. Co., *ante*. In State *v.* Grand Trunk R. Co., 4 Am. Rep. 258; 58 Me. 176, the rule was laid down that a passenger on a railway, who purchases a ticket for a distant station and gets off the train temporarily, and without notice, invitation or objection, while it is stopping at an intermediate station, does no illegal act, but, for the time, he surrenders his place and rights as a passenger; but he may return and resume his place and rights as a passenger on the train before it starts, and the officers of the railway are bound to give reasonable notice of the starting of the train.

a sufficient time, reasonably, to enable the passengers to get off. If so, it cannot be said to have been guilty of negligence in the management of its train, and no recovery can be had.[1] In the last cited case, the court held that the defendant was entitled to an instruction, that "if the train had stopped a sufficient time to enable the plaintiff to leave it safely, and had then again started on its course, and passed the platform, and the plaintiff then left the platform of the car while the train was in motion, rather than be carried by, he was guilty of carelessness and could not recover for the injuries sustained by him;" also, that "if the defendant stopped its train a sufficient time to allow the plaintiff to leave it safely, it was not guilty of negligence." The train must be stopped a sufficient time reasonably to enable all persons desiring to stop at the station to do so, and the question as to whether it did so in a given case is one of fact for the jury.[2]

SEC. 499. **Injuries received in getting upon a train.** — The same duty and the same rule of liability exists on the part of a railroad company, in reference to stopping its trains sufficiently long to enable passengers to get on to it. Generally, it may be said, a person attempting to get aboard a train while it is in motion, is guilty of such contributory negligence as will bar a recovery for an injury received while attempting to do so. And the fact that pressing business requires that he should take the train, *or any other excuse*, will not excuse his negligence, or entail the consequences thereof upon the company. *If he was in fact guilty of contributory negligence, although the company was also negligent*, no recovery can be had.[3] But while, as previously stated, generally, an attempt to get aboard a train in motion will be treated as evidence of negligence *per se* on the part of the passenger, yet, instances may exist when it is not so, and the passenger is justified

[1] Davis *v.* Chicago, etc., R. Co., 18 Wis. 175.

[2] Pennsylvania, etc., R. Co. *v.* Kilgore, 32 Pa. St. 292; Paulk *v.* S. W R. Co., 24 Ga. 356; Illinois, etc., R. Co. *v.* Statton, 54 Ill. 123; Lampeth *v.* North Carolina R. Co., 66 N. C. 494; Evansville, etc., R. Co. *v.* Duncan, 28 Ind. 441; Lloyd *v.* Hannibal, etc., R. Co., 53 Mo. 509; Pennsylvania R. Co. *v.* Kilgore, 32 Pa. St. 292; Fairmount, etc., R. Co. *v.* Statler, 54 id. 375; Toledo, etc., R. Co. *v.* Baddesley, 54 Ill. 19; Southern R. Co. *v.* Kendrick, 40 Miss. 374; Inhoff *v.* Chicago, etc., R. Co., 20 Wis. 344.

[3] Habner *v.* New Orleans, etc., R. Co., 23 La. Ann. 492; Keating *v.* N. Y. C. R. Co., 3 Lans. (N. Y.) 469; Knight *v.* Pontchartrain R. Co., 23 La. Ann. 462.

in making the attempt, but in such cases, liability arises if at all because of the fact that the danger was not obvious;[1] or because the agents of the company directed the passenger to make the attempt.[2] But, even where the agents of the company *direct* the passenger to do so, the company is not liable, *if it was gross negligence on the part of the passenger to make the attempt, in view of all the circumstances*, and whether it was so or not, is a question for the jury.[3]

Sec. 500. **Accommodations — contributory negligence.** — A railroad company is bound to furnish its passengers reasonable and proper accommodations for traveling, and if it has an insufficient number of cars, so that passengers are *compelled to ride upon the platform*, it is liable for injuries received by them while riding there,[4] but for injuries received while *unnecessarily* riding there the company is not responsible,[5] nor while passing from one car to another unnecessarily.[6] The fact that the conductor *permits* a passenger to ride upon the platform, when there is no necessity for his doing so, does not render the company liable for injuries received by him; no person has a right to charge another with the consequences of his own negligence, simply because such persons permitted him to do the act.[7] In all cases, when questions of liability under such circumstances arise, it is a question for the jury whether the plaintiff was guilty of such contributory negligence as will prevent a recovery, and this must be determined in view of all the facts, and if upon the whole it is found that the negligence of the company was the proximate cause of the injury, the fact that the plaintiff was negligent in being where he was will not prevent a recovery.[8]

[1] Curtis *v.* Detroit, etc., R. Co., 27 Wis. 158; Johnson *v.* Westchester, etc., R. Co., 70 Pa. St. 357.

[2] Detroit, etc., R. Co. *v.* Curtis, 23 Wis. 152.

[3] Phillips *v.* R. & S. R. Co., 49 N. Y. 177; Curtis *v.* Detroit, etc., R. Co., *ante*.

[4] Willis *v.* Long Island R. Co., 34 N. Y. 670.

[5] Hickey *v.* Boston, etc., R. Co., 14 Allen (Mass.), 429; Quin *v.* Ill. Cent. R. Co., 51 Ill. 495.

[6] Macon, etc., R. Co. *v.* Johnson, 38 Ga. 409.

[7] Higgins *v.* N. Y. & Harlem R. Co., 2 Bosw. (N. Y.) 132.

[8] Zemp *v.* Wilmington, etc., R. Co., 9 Rich (S. C.), 84; Edgerton *v.* N. Y. & Harlem R. Co., 35 Barb. (N. Y.) 389; Sheridan *v.* Brooklyn, etc., R. Co., 36 N. Y. 39; Willis *v.* Long Island R. Co., 34 id. 670; Clark *v.* 8th Ave. R. Co., 36 id. 135; Meesel *v.* Lynn, etc., R. Co., 8 Allen (Mass.), 234. So for injuries received while riding in the baggage car, if by consent of conductor. O'Donnel *v.* Alleghany R. Co., 50 Pa. St. 490. So where a pas-

SEC. 501. **Duty to passengers — implied obligations.** — Not only is a railroad company or other carrier of passengers bound to exercise proper care to prevent injury to its passengers *while upon its premises, in going to or from its trains, but it is also bound to exercise reasonable care and diligence in protecting them from insults or injury from other passengers, while riding thereon, as well as from its own servants.* It is not held to the same degree of care in this respect as it is held to in the selection of the agencies of its business, but it is bound to exercise that degree of care that a prudent man would exercise under similar circumstances in the conduct of his own business. The mere fact that one passenger is injured by an assault committed by another does not of itself even constitute a *prima facie* cause of action, but if it is also shown that the person who committed the injury *was improperly admitted upon the train*, being *drunk and disorderly at the time;* or *was improperly permitted to remain there because of his riotous or improper conduct after he got upon the train*, the company is liable for all the consequences.[1]

senger leaps from the car to avoid injury, if the danger was such as to justify the step, the company is responsible for the consequences. S. West. R. Co. *v.* Paulk, 24 Ga. 356; R. Co. *v.* Aspell, 26 Pa. St. 167 · Frink *v.* Potter, 17 Ill. 406; Eldridge *v.* Long Island R. Co., 1 Sandf. (N. Y.) 89. So for injuries received from sudden movements of the train, either in starting or stopping. Stimson *v.* N. Y. Cent. R. Co., 32 N. Y. 333; Gordon *v.* R. Co., 40 Barb. (N. Y.) 546; Brown *v.* N. Y. Cent. R. Co., 32 N. Y. 597.

[1] Goddard *v.* Grand Trunk Railway Co., 57 Me. 202; 2 Am. Rep. 39; Railroad Co. *v.* Finney, 10 Wis. 388; Moore *v.* Railroad Co., 4 Gray (Mass.), 465; Ramsden *v.* Boston and Albany R. Co., 104 Mass. 117; 6 Am. Rep. 200; Phila. & Reading R. Co. *v.* Derby, 14 How. (U. S.) 468; Sherley *v.* Billings, 8 Bush (Ky.), 147; 8 Am. Rep. 451; Bryant *v.* Rich, 105 Mass. 180; 8 Am. Rep. 311; Holmes *v.* Wakefield, 12 Allen (Mass.), 580; Duggins *v.* Watson, 15 Ark. 118; Passenger R. Co. *v.* Young, 31 Ohio St. 518; 8 Am. Rep. 78; Railroad Co. *v.* Blocher, 27 Md. 277; Nieto *v.* Clark, 1 Clifford (U. S. C. C.), 145; Flint *v.* Trans. Co., 34 Conn. 554; Seymour *v.* Greenwood, 7 H. & N. 355; Railroad Co. *v.* Vandiver, 42 Pa. St. 365; Landreaux *v.* Bel, 5 La. (O. S.) 434; Railroad Co. *v.* Hinds, 53 Pa. St. 512; The Atlantic and Gt. Western R. Co. *v.* Dunn, 19 Ohio St. 162; 2 Am. Rep. 382; The Little Miami R. Co. *v.* Wetmore, 19 Ohio St. 110; 2 Am. Rep. 373; Jeffersonville R. Co. *v.* Rogers, 38 Ind. 116; 10 Am. Rep. 103; Craker *v.* The Chicago and North Western R. Co., 36 Wis. 657; 17 Am. Rep. 504; Chamberlain *v.* Chandler, 4 Mas. (U. S.) 242; Stephen *v.* Smith, 29 Vt. 190; Railroad Co. *v.* Anthony, 43 Ind. 183; Bayley *v.* Railroad Co., L. R., 7 C. P. 415; Coleman *v.* R. Co., 106 Mass. 160; Maroney *v.* R. Co., id. 153; Brand *v.* Railroad Co., 8 Barb. (N. Y.) 368; Weed *v.* Panama R. Co., 17 N. Y. 362.

In Brand *v.* Railroad, 8 Barb. 368 the court say: "A passenger on board a stage-coach or railroad car, and a person on foot in the street, do not stand in the same relation to the car-

Sec. 502. **Ground upon which liability is predicated.** — The liability of a railroad company to its passengers is predicated upon a different ground from its liability to its own or servants' agents, or others who do not occupy that relation to it. The rule is, that where a person or corporation by contract or statute is bound to do certain things, they are absolutely responsible for the manner in which the duty is performed, and cannot excuse themselves from liability because they have committed the duty to others who were believed to be possessed of superior qualifications for performing such duties. Mr. Wood, in his Law of Master and Servant (pp. 645–652), in commenting upon this question, says: "He is bound to discharge his legal obligation to the latter, and if he commits this duty to another, he does it at his peril."[1] For instance," he adds, "and to illustrate the application of the rule, a carrier of passengers for hire — as a railroad company — by the sale of a ticket, or the receipt of the price for transportation from one point to another expressly contracts to carry such person to the point covered by the contract. In addition to that, the law *impliedly* raises a contract on his part to carry such person safely, so far as human foresight can guard against disaster; to carry him in the usual and ordinary mode, incident to such travel; to treat him respectfully, and protect him, so far as due care on his part can do so, from injury from other persons riding by the same conveyance. These are among the *implied* obligations imposed, and they are absolute duties that cannot be shirked or evaded, and for a failure in the observance of which he is liable to the passengers whether such failure results from his own act or the act of those to whom

rier. Toward the one the liability of the carrier springs from a contract, express or implied, and upheld by an adequate consideration. Toward the other he is under no obligation but that of justice and humanity. Hence a passenger who is injured by a servant of the carrier may have a right of action against him, when one not a passenger, for a similar injury, would not.

In Meyer *v.* Second Av. R. Co., 8 Bos. (N. Y.) 305, affirmed 17 N. Y. 362, a passenger who was wrongfully expelled from the platform of a car by the defendants' servants was held entitled to recover damages for the same. So, where a person is rightfully expelled, if excessive force is used, or an improper place is selected, liability attaches. Hibbard *v.* R. Co., 15 N. Y. 455; Hilliard *v.* Goold, 34 N. H. 230; Johnson *v.* Concord R. Co., 46 id. 213; Sandford *v.* Eighth Av. R. Co., 23 N. Y. 343; Terre Haute, etc., R. Co. *v.* Vanatta, 21 Ill. 188; Stephen *v.* Smith, 29 Vt. 160.

[1] Goddard *v.* Grand Trunk Railway Co., 57 Me. 202; 2 Am. Rep. 39; Railroad Co. *v.* Finney, 10 Wis. 388; Moore *v.* R. Co., 4 Gray (Mass.), 465.

he committed the duty.[1] In a Pennsylvania case[2] this question was ably considered. In that case an action was brought for an injury to the plaintiff's wife by the fighting of passengers among themselves. It appeared that drunken and quarrelsome men intruded themselves into the ladies' car in large numbers at one of the stations, and a fight ensued, during which the plaintiff's arm was broken. In passing upon the question of liability of the railroad company therefor, WOODARD, C. J., said:

[1] In R. Co. *v.* Finney, 10 Wis. 388, the plaintiff was unlawfully put out of a car by the conductor. In Seymour *v.* Greenwood, 7 H. & N. 355, a passenger was assaulted and put out of the defendant's omnibus by one of its servants. In Moore *v.* Railroad Co., 4 Gray (Mass.), 465, the plaintiff, a passenger, was forcibly expelled from the defendants' train by the conductor, and in all these cases the company was held responsible. So, in Railroad *v.* Vandiver, 42 Pa. St. 365, a passenger received injuries, of which he died, by being thrown from the platform of a railroad car because he refused to pay his fare or show his ticket, he averring he had bought one but could not find it. The evidence showed he was partially intoxicated. It was urged in defense that if the passenger's death was the result of force and violence, and not the result of negligence, then (such force and violence being the act of the agents alone without any command or order of the company) the company was not responsible therefor. But the court held otherwise. "A railway company," said the court, "selects its own agents at its own pleasure, and it is bound to employ none except capable, prudent and humane men. In the present case the company and its agents were all liable for the injury done to the deceased."

In Weed *v.* Railroad, 17 N. Y. 362, the jury found specially that the act of the servant by which the plaintiff was injured was willful. The court held the willfulness of the act did not defeat the plaintiff's right to look to the railroad company for redress.

In Railroad *v.* Derby, 14 How. 468, where the servant of a railroad company took an engine and run it over the road for his own gratification, not only without consent, but contrary to express orders, the supreme court of the United States held that the railroad company was responsible.

In Railway *v.* Hinds, 53 Pa. St. 512, a passenger's arm was broken in a fight between some drunken persons that forced their way into the car at a station near an agricultural fair, and the company was held responsible, because the conductor went on collecting fares, and did not stop the train and expel the rioters, or demonstrate, by an earnest effort, that it was impossible to do so.

In Flint *v.* Transportation Co., 34 Conn. 554, where the plaintiff was injured by the discharge of a gun dropped by some soldiers engaged in a scuffle, the court held that passenger carriers are bound to exercise the utmost vigilance and care to guard those they transport from violence from whatever source arising; and the plaintiff recovered a verdict for $10,000.

In Landreaux *v.* Bel, 5 La. (O. S.) 434, the court say that carriers are responsible for the misconduct of their servants toward passengers to the same extent as for their misconduct in regard to merchandise committed to their care; that no satisfactory distinction can be drawn between the two cases.

In Chamberlain *v.* Chandler, 3 Mason, 242, Judge Story declared, in language strong and emphatic, that a passenger's contract entitles him to respectful treatment; and he expressed the hope that every violation of this right would be visited, in the shape of damages, with its appropriate punishment.

[2] Pittsburgh & Fort Wayne R. Co. *v.* Hinds, 53 Pa. St. 503.

"There is no such privity between the company and the disorderly passenger as to make them liable on the principle of *respondeat superior*. The only ground on which they can be charged is a violation of the contract they made with the injured party. They undertook to carry the plaintiff safely, and so negligently performed this contract that she was injured. This is the ground of her action; it can rest upon no other. The negligence of the company or of their officers in charge of the train is the gist of the action, and so it is laid in the declaration. And this question of negligence was submitted to the jury in a manner of which the company have no reason to complain. The only question for us as a court of error, therefore, is whether the case was, upon the whole, one that ought to have been submitted. The manner of the submission having been unexceptionable, was there error in the fact of submission?

"The learned judge reduced the case to three propositions. He said the plaintiff claims to recover,

"1st. Because the evidence shows that the conductor did not do his duty at Beaver station, by allowing improper persons to get on the cars.

"2d. Because he allowed more persons than was proper under the circumstances to get on the train, and to remain upon it.

"3d. That he did not do what he could and ought to have done to put a stop to the fighting upon the train which resulted in the plaintiff's injury.

"As to the first of the above propositions, the judge referred the evidence to the jury especially with a view to the question whether the disorderly character of the men at Beaver station had fallen under the conductor's observation so as to induce a reasonable man to apprehend danger to the safety of the passengers.

"The evidence on this point was conflicting, but it must be assumed that the verdict has established the conclusion that the

In Nieto *v.* Clark, 1 Clifford, 145, where the steward of the ship assaulted and grossly insulted a female passenger, Judge Clifford declares, in language equally emphatic, that the contract of all passengers entitles them to respectful treatment and protection against rudeness and every wanton interference with their persons from all those in charge of the ship; that the conduct of the steward disqualified him for his situation, and justified the master in immediately discharging him, although the vessel was then in a foreign port. Railroad *v.* Blocher, 27 Md. 277

conductor knew that drunken men were getting into the cars. Let it be granted also as a conclusion of law that a conductor is culpably negligent who admits drunken and quarrelsome men into a passenger car. What then?

"The case shows that an agricultural fair was in progress in the vicinity of Beaver station; that an excited crowd assembled at the station rushed upon the cars in such numbers as to defy the resisting power at the disposal of the conductor, and that the man who commenced the fight sprung upon the platform of the hindmost car after they were in motion.

"Of what consequence, then, was the fact that the conductor knew these were improper passengers? It is not the case of a voluntary reception of such passengers. If it were, there would be great force in the point, for more improper conduct could scarcely be imagined in the conductor of a train than voluntarily to receive and introduce among quiet passengers, and particularly ladies, a mob of drunken rowdies. But the case is that of a mob rushing with such violence and in such numbers, upon the cars, as to overwhelm the conductor as well as the passengers.

"It is not the duty of railroad companies to furnish their trains with a police force adequate to such emergencies. They are bound to furnish men enough for the ordinary demands of transportation, but they are not bound to anticipate or provide for such an unusual occurrence as that under consideration.

"When passengers purchase their tickets and take their seats they know that the train is furnished with the proper hands for the conduct of the train, but not with a police force sufficient to quell mobs by the wayside. No such element enters into the implied contract. It is one of the incidental risks which all who travel must take upon themselves, and it is not reasonable that a passenger should throw it upon the transporter.

"These observations are equally applicable to the second proposition. The conductor did not 'allow' improper numbers, any more than improper characters, to get upon the cars. He says he took no fare from them, and in no manner recognized them as passengers. To allow undue numbers to enter a car is a great wrong, almost as great as knowingly to introduce persons of improper character, and, in a suitable case, we would not hesitate to

chastise the practice severely. But this is not a case in which the conductor had any volition whatever in respect either to numbers or characters. He was simply overmastered; and the only ground upon which the plaintiff could charge negligence upon the company would be in not furnishing the conductor with a counter force sufficient to repel the intruders. This was not the ground assumed by the plaintiff, and it would scarcely have been maintainable had it been assumed. Taking the case as it is presented in the evidence, we think it was error for the court to submit the cause to the jury on these two grounds. But upon the third ground we think the cause was properly submitted. *If the conductor did not do all he could to stop the fighting, there was negligence.* Whilst a conductor is not provided with a force sufficient to resist such a raid as was made upon the train in this instance, he has, nevertheless, large powers at his disposal, and, if properly used, they are generally sufficient to preserve order within the cars, and to expel disturbers of the peace. His official character and position are a power. Then he may stop the train and call to his assistance the engineer, the firemen, all the brakemen, and such passengers as are willing to lend a helping hand, and it must be a very formidable mob, indeed, more formidable than we have reason to believe had obtruded into these cars, that can resist such a force. Until at least he has put forth the forces at his disposal, no conductor has a right to abandon the scene of conflict. To keep his train in motion and busy himself with collecting fares in forward cars whilst a general fight was raging in the rearmost car where the lady passengers had been placed, was to fall far short of his duty. Nor did his exhortation to the passengers to throw the fighters out come up to the demands of the hour. He should have led the way, and no doubt passengers and hands would have followed his lead. He should have stopped the train and hewed a passage through the intrusive mass until he had expelled the rioters, or have demonstrated, by an earnest experiment, that the undertaking was impossible."

Sec. 503. **Liability for willful wrongs of agents.** — In a Maine case,[1] the liability of a railway company for an injury inflicted

[1] Goddard *v.* Grand Trunk, etc., R. Co., 57 Me. 202.

upon a passenger by one of its servants was discussed. In that case it appeared that the plaintiff was a passenger in the defendant's train, and that, on request, he surrendered his ticket to a brakeman employed on the train, who, in the absence of the conductor, was authorized to demand and receive it; that the brakeman afterward approached the plaintiff, and, in language coarse, profane and grossly insulting, denied that he had either surrendered or shown him his ticket; that the brakeman called the plaintiff a liar, charged him with attempting to avoid the payment of his fare, and with having done the same thing before, and threatened to split his head open and spill his brains right there on the spot; that the brakeman stepped forward and placed his foot upon the seat on which the plaintiff was sitting, and, leaning over the plaintiff, brought his fist close down to his face, and, shaking it violently, told him not to *yip*, if he did, he would *spot* him; that he was a damned liar; that he never handed him his ticket; that he did not believe he paid his fare either way; that this assault was continued some fifteen or twenty minutes, and until the whistle sounded for the next station; that there were several passengers present in the car, some of whom were ladies, and that they were all strangers to the plaintiff; that the plaintiff was at the time in feeble health, and had been for some time under the care of a physician, and at the time of the assault was reclining languidly in his seat; that he had neither said nor done any thing to provoke the assault; that, in fact, he had paid his fare, had received a ticket, and had surrendered it to this very brakeman who delivered it to the conductor only a few minutes before, by whom it was afterward produced and identified; that the defendants were immediately notified of the misconduct of the brakeman, but, instead of discharging him, retained him in his place; that the brakeman was still in the defendants' employ when the case was tried and was present in court during the trial, but was not called as a witness, and no attempt was made to justify or excuse his conduct. Upon this evidence the defendants contended that they were not liable, because the brakeman's assault upon the plaintiff was willful and malicious, and was not directly nor impliedly authorized by them; that "the master is not responsi-

ble as a trespasser, unless, by direct or implied authority to the servant, he consents to the unlawful act."

"The fallacy of this argument, when applied to the common carrier of passengers," said Walton, J., "consists in not discriminating between the obligation which he is under to his passenger, and the duty which he owes a stranger. It may be true that if the carrier's servant willfully and maliciously assaults a stranger, the master will not be liable; but the law is otherwise when he assaults one of his master's passengers. The carrier's obligation is to carry his passenger safely and properly, and to treat him respectfully, and if he intrusts the performance of this duty to his servants, the law holds him responsible for the manner in which they execute the trust. The law seems to be now well settled that the carrier is obliged to protect his passenger from violence and insult, from whatever source arising. He is not regarded as an insurer of his passenger's safety against every possible source of danger; but he is bound to use all such reasonable precautions as human judgment and foresight are capable of to make his passenger's journey safe and comfortable. He must not only protect his passenger against the violence and insults of strangers and co-passengers, but, *a fortiori*, against the violence and insult of his own servants. If this duty to the passenger is not performed, if this protection is not furnished, but, on the contrary, the passenger is assaulted and insulted, through the negligence or the willful misconduct of the carrier's servant, the carrier is necessarily responsible.

"And it seems to us it would be cause of profound regret if the law were otherwise. The carrier selects his own servants and can discharge them when he pleases, and it is but reasonable that he should be responsible for the manner in which they execute their trust. To their care and fidelity are intrusted the lives and limbs and comfort and convenience of the whole traveling public, and it is certainly as important that these servants should be trustworthy as it is that they should be competent. It is not sufficient that they are capable of doing well, if in fact they choose to do ill; that they can be as polite as a Chesterfield, if, in their intercourse with the passengers, they choose to be coarse, brutal and profane. The best security the traveler can have that these servants will

be selected with care is to hold those by whom the selection is made responsible for their conduct."

Still further on in the course of his opinion, he summarizes the rule of liability thus: "The law requires the common carrier of passengers to exercise the highest degree of care that human judgment and foresight are capable of, to make his passenger's journey safe. Whoever engages in the business impliedly promises that his passengers shall have this degree of care. In other words, the carrier is conclusively presumed, we say *conclusively* presumed, for the law will not allow the carrier, by notice or special contract even, to deprive his passenger of this degree of care. If the passenger does not have such care, but on the contrary is unlawfully assaulted and insulted by one of the very persons to whom his conveyance is intrusted, the carrier's implied promise is broken, and his legal duty is left unperformed, and he is necessarily responsible to the passenger for the damages he thereby sustains. The passenger's remedy may be either in assumpsit or tort, at his election. In the one case, he relies upon a breach of the carrier's common-law duty in support of his action; in the other, upon a breach of his implied promise. The form of the action is important only upon the question of damages. In actions of assumpsit, the damages are generally limited to compensation. In actions of tort, the jury are allowed greater latitude, and, in proper cases, may give exemplary damages."

The liability of a carrier of passengers for insults inflicted upon its passengers was ably discussed in a Wisconsin case.[1]

In that case the plaintiff, a young lady, was a passenger upon the defendants' road, and, for a portion of the way, was the only passenger in the car, and while so pursuing her journey the conductor of the train, without her consent, forcibly kissed her. In an action against the railroad company, to recover for the injury, a verdict for $1,000 was rendered in her favor, which was sustained upon appeal. RYAN, C. J., remarking upon the question whether the master is generally liable for the willful or wanton acts of his servant, said: "However that may be in general, there can be no doubt of it in those employments in which the agent performs a

[1] Craker *v.* The Chicago & N. W. R. Co., 36 Wis. 657; 17 Am. Rep. 504.

duty of the principal to third persons, as between such third persons and the principal. Because the principal is responsible for the duty, and if he delegates it to an agent, and the agent fails to perform it, it is immaterial whether the failure be accidental or willful, in the negligence or in the malice of the agent. It would be cheap and superficial morality to allow one owing a duty to another to commit the performance to a third person, without responsibility for the malicious conduct of the substitute in the performance of the duty. If one owe bread to another, and appoints an agent to furnish it, and the agent, of malice, furnishes a stone, instead, the principal is responsible for the stone and its consequences."

"If," says Mr. Wood (Law of Master and Servant, p. 648 *et seq.*), "a carrier of goods for hire should commit the carriage of the goods to a servant, and the servant should steal them, or wantonly destroy them, or, through his negligence, injure, or suffer them to be injured, there is no question but that the master would be liable therefor,[1] and it would be a singular rule, and an absurd one, that did not hold the carriers of passengers, intrusted not only with their comfort, but the safety of their persons, and their lives, during the journey, to as strict performance of this duty as of the other, and it will be seen by an examination of the cases that they are. They are bound to look out for the comfort of their passengers, and, as far as possible, save them from annoyance.[2] This rule has been held to extend to cover an implied stipulation that such carriers are bound to protect passengers against "obscene conduct, lascivious behavior, and every immodest and libidinous approach,[3] and this has been held to amount to a contract duty. In the language of Story, J.:[4] 'It is a stipulation not for toleration, but for respectful treatment, for that decency of demeanor which constitutes the charm of social life, for that attention which mitigates evil without reluctance, and that promptitude which administers aid to distress. In respect to females, it proceeds yet further; it includes an implied stipulation against general obscenity, that

[1] Alden *v.* Pearson, 3 Gray (Mass.), 342; Klauber *v.* Am. Ex. Co., 21 Wis. 21; Am. Ex. Co. *v.* Sands, 55 Pa. St. 140.

[2] Day *v.* Owen, 5 Mich. 520.

[3] Nieto *v.* Clark, 1 Cliff. (U. S.) 145

[4] Chamberlain *v.* Chandler, 3 Mas (U. S.) 242.

immodesty of approach that borders on lasciviousness, and that wanton disregard of the feelings which aggravates every evil.' In commenting upon the rights and duties of carriers of passengers, SHAW, C. J.,[1] said: 'An owner of a steamboat or railroad is in a condition somewhat similar to that of an innkeeper, whose premises are open to all guests, yet he is not only empowered, *but he is bound* so to regulate his house, as well with regard to the peace and comfort of his guests, who there seek repose, as to the peace and quiet of the vicinity, as to repress and prohibit all disorderly conduct therein; and, of course, he has a right, and is bound to exclude from his premises all disorderly persons not conforming to the regulations necessary and proper to secure such quiet and good order." [2]

From these brief extracts from the opinions of eminent jurists, as well as from an examination of the cases referred to in the notes to this section, it will be seen that, in all cases where the master owes a duty to third persons, or the public, he cannot shirk or evade it by committing its performance to another, but is bound absolutely to perform the duty, and is liable for a failure so to do, in any respect, whereby injury results to others, whether such failure results from the negligence or from the willful, wanton, or criminal conduct of the agent to whom the duty is committed.[3] This rule was well illustrated in the case referred to in the last note. In that case the plaintiff, with his wife, took passage on the defendants' train, and, through the willful conduct of their conductor and servant, the train was detained over night in an unhealthy locality, and the passengers were thereby exposed to great dangers and hardships. The plaintiff's wife, in consequence of such exposure and hardships, was taken ill during the night and suffered greatly. In an action to recover for the injury, the defendants were held liable, notwithstanding the injury arose from the willful act of the conductor, the court very properly holding that the defendants were bound to discharge their contract with the plaintiff absolutely, and could not defend upon the ground that they had committed its performance to an

[1] Com. *v.* Power, 7 Metc. (Mass.) 601.
[2] See, also, Markham *v.* Brown, 8 N. H. 523.
[3] Weed *v.* Panama R. Co., 17 N. Y 362.

agent, who had wantonly disregarded the duty. In reference to the application of this rule, so far as railroad companies and carriers of passengers are concerned, it may be said that they are not only bound to protect their passengers against injury and unlawful assault by third persons riding upon the same conveyance, so far as due care can secure that result, but they are bound absolutely to see to it that no unlawful assault or injury is inflicted upon them by their own servants. In the one case their liability depends upon the question of negligence, whether they improperly admitted the passenger inflicting the injury upon the train,[1] while in the other, the simple question is, whether the act was unlawful, and the question of negligence is not an element of liability.[2] In a Massachusetts case[3] the plaintiff was a passenger upon the defendant's steamboat from Boston to Gardiner, Maine, and while upon the trip he was unlawfully assaulted by the steward of the boat and some of the table waiters. In an action to recover for the injuries, the plaintiff had a verdict for $8,000 which was upheld on appeal, Chapman, J., remarking: "As a general rule, the master is liable for what his servant does in the course of his employment; but, in regard to matters wholly disconnected from the service to be rendered, the master is under no responsibility for what the servant does or neglects to do. The reason is that, in respect to such matters, he is not a servant.[4] If, therefore, any of the officers or men, connected with the running of the defendants' boat, had met the plaintiff in the street or elsewhere, in a position wholly disconnected with their duties to the defendants, and committed an assault and battery upon him, it is clear that the defendants would not have been liable.

"There are two views which may be taken in the present case. One is the view which was taken by the court in *Philadelphia and Reading Railroad Co.* v. *Derby*.[5] The plaintiff in that action was riding gratuitously, and the court held that the company were liable to him, not on the ground of a contract

[1] R. Co. *v.* Hinds, 53 Pa. St. 512; Stephen *v.* Smith, 29 Vt. 160.

[2] Goddard *v.* Grand Trunk Railway, *ante;* Sherley *v.* Billings, *ante;* Bryant *v.* Rich, *ante.*

[3] Bryant *v.* Rich, 106 Mass. 180; 8 Am. Rep. 311.

[4] Aldrich *v.* The Boston & Worcester R. Co., 100 Mass. 31.

[5] 14 How. 468.

between the parties, but because he was injured by their carelessness when he was where he had a lawful right to be. But as the plaintiff in this case was a passenger for hire, we think it better to consider what the contract was between them. This has been discussed in the following cases.[1] It has also been thoroughly discussed in *Goddard* v. *Grand Trunk Railway*.[2] These cases were cited by CLIFFORD, J., in *Pendleton* v. *Kinsley*, Rhode Island Circuit, June, 1870, not yet reported, and the terms of the contract for carriage by water are well stated by him in conformity with the authorities, as follows: 'Passengers do not contract merely for ship-room and transportation from one place to another, but they also contract for good treatment, and against personal rudeness and every wanton interference with their persons, either by the carrier or his agents employed in the management of the ship or other conveyance.[3] In respect to such treatment of passengers, not merely the officers, but the crew, are the agents of the carriers.' In *Chamberlain* v. *Chandler*,[3] cited above, STORY, J., says: 'That kindness and decency of demeanor is a duty not limited to the officers, but extends to the crew.'

"The interpretation of the contract of the carrier, which is given in the cases above cited, is not unreasonable. It is not more extensive than the necessities of passengers require. Nor is it difficult to perform. The cases in which it is violated by servants, even of the lowest grade, on board a ship or engaged in the management of a railroad train, and the carrier rather than the passenger ought to take the risk of such exceptional cases, the passenger being necessarily placed so much within the power of the servants.

"In this case, the servants who committed the wrong, being the steward and table waiters, were those who were engaged in providing meals, waiting on the tables and collecting the pay for meals. They were treating the plaintiff's relative with gross

[1] Chamberlain *v.* Chandler, 3 Mas. 242; Nieto *v.* Clark, 1 Cliff. 145; Baltimore & Ohio R. Co. *v.* Blocher, 27 Md. 277; Pittsburgh, Fort Wayne & Chicago R. Co. *v.* Hinds, 53 Pa. St. 512; Simmons *v.* New Bedford, Vineyard and Nantucket Steamboat Co., 97 Mass. 361, and 100 id. 34; Milwaukee & Mississippi R. Co. *v.* Finney, 10 Wis. 388.

[2] *Supra*, 57 Me. 202; 2 Am. Rep. 39.

[3] 3 Mason, 242.

rudeness in connection with this business, and the plaintiff interfered only by a remark that was proper, whereupon the assault was committed. It was not as if a quarrel had occurred on shore and disconnected with the duties of persons on shipboard. It violated the contract of the defendants, as to how the plaintiff should be treated by their servants, who were employed on board the ship and during the passage. For a violation of such a contract either by force or negligence, the plaintiff may bring an action of tort, or an action of contract."

SEC. 504. **Liability of railroad corporations for delay in running trains.** — A railroad company is held chargeable with damages for delay in the running of its trains according to schedule time, and any person sustaining damage from a failure on its part to run its trains *upon such time* is entitled to recover the same.[1] By issuing its

[1] Sears *v.* Eastern R. Co., 14 Allen (Mass.), 433.

In England the same doctrine is held; thus in Buckmaster *v.* The Great Eastern Railway Co., 23 Law J. Rep. (N. S.) Exch. 471, an action was brought for damages sustained by the plaintiff by reason of the company not starting a train as advertised in their time bills, and in which the plaintiff obtained a verdict, Baron MARTIN said: "That it was mere nonsense for companies to say, as, in effect, the company in that case had said, 'We will be guilty of any negligence we think fit, and we will not be responsible;'" and with respect to the notice in this case the learned judge of the Marylebone county court thus concludes: "I am of opinion that it is ultra vires so far as it professes to attach to the right of traveling on their own line the condition that the company will not be responsible for any short-comings of their servants not amountingto willful misconduct, whatever that term may mean." In this view as to the invalidity of the stipulation in question I fully concur. It seems to me to be a monstrous proposition that the railway companies, who are bound by their special Acts and the Railway Clauses Consolidation Act, 1845, section 86, to carry passengers at rates fixed within certain limits, should be able to affix to their contracts with the passengers a stipulation which, if valid, would deprive the passengers of their common-law right to the performance with due diligence of the company's contract with them. There is one other remark I would wish to add, viz., that the restrictions as to the company's liability for not corresponding with other trains contained in the notice and regulation in question only extends to cases where their trains fail to correspond with trains of other companies and not with other trains of their own, which is the present case. Having stated my opinion as to the liability of the company at common law and of the invalidity of the above notice and regulation so far as it restricts such liability in the present case, it still remains for me to consider the last point raised by the defendants, viz.: Whether, if the notice and regulation were valid, and the plaintiff was bound by it to show willful misconduct on the part of the defendants' servants, he has shown it in the present case; in other words, whether the absence of the porters through their own fault, or by the orders of superior servants of the company, was, under all the circumstances of the present case, in point of law, 'willful misconduct,' and I think with some doubt that it ought to be so held, and on this point I wish to

time tables it is treated as contracting with its passengers that its trains shall leave and arrive at its stations at the time named therein, and failing to perform in this respect it is chargeable with the damages that ensue in consequence thereof.[1] It may change its schedule time, but, as to the holders of season tickets, it is bound to give reasonable notice of such change, and a mere advertisement of such change in public journals, or posting notice thereof in its stations or cars, is held not sufficient to relieve it from liability.[2]

The company is liable even though the delay resulted from the willful acts of its servants.[3] The issue of a time table, indicating the time of the arrival and departure of trains, is held to amount to an express promise to run to the places and at the times named, and nothing but accidents resulting from causes which reasonable care could not have provided against, will excuse liability.[4]

refer once more to the judgment of the learned judge of the Marylebone county court in Turner *v.* The Great Western Railway Company, and the authorities therein cited, as to the legal interpretation of the words 'willful misconduct.' The only case that I am aware of that militates against my view is that of Russell *v.* The Great Western Railway Company, before the learned judge of the Bath county court — to whom I have already referred — in which he held that the altered notice or regulation was valid and operative to restrict the defendants, liability to cases of proved willful misconduct on the part of their servants, but from what I have said it will be seen that I cannot concur in his view. Upon the whole, I am in favor of the plaintiff on all the points of law and facts involved in this case, and a verdict will, therefore, be entered for the plaintiff for the amount claimed, with costs, and with liberty to the defendants to appeal within one month.' "

[1] Gordon *v.* Manchester, etc., R. Co., 52 N. H. 596.

[2] Sears *v.* Eastern R. Co., *ante.*

[3] Weed *v.* Panama R. Co., 17 N. Y. 362.

[4] Denton *v.* Great Northern R. Co., 5 El. & Bl. 860.

In Turner *v.* Great Western Railway Company, decided in the Marylebone county court (England), in May, 1874, WHEELER, J., said: "The question of reasonable time is no longer left at large, but is, in fact, fixed by the companies themselves, subject, of course, to accidents which reasonable care could not provide against. In the present case it is quite clear that the absence of porters at the Reading station, which reasonable care might (as far as appears) have prevented, occasioned the detention of the plaintiff at Twyford, and as he was able to procure a conveyance by which he got to Henley, substantially half an hour sooner than the railway company were prepared to convey him by the next train, I think that he was justified in hiring it, and that (subject to the next question) he is entitled to recover its cost against the defendants. The next question which remains for me to consider is, whether the notice and regulation contained in the defendants' tables deprive the plaintiff of his right to recover against the defendants. Now, this notice and regulation as altered came before the learned judge of the Marylebone county court in the case I have already referred to, and he there commented upon it so fully and

SEC. 505. **Liability for negligence in constructing or repairing railroads, and for nuisances.** — A railroad company is bound to exercise ordinary care to prevent injury either to the person or property

so ably that I cannot do better than quote his remarks. Referring to the notice and regulation which came before him in Mr. Forsyth's case, he observes: 'The company's notice of August commenced with these words, 'Every attention will be paid to insure punctuality as far as practicable.' This really is all that the law requires. 'But,' continued the notice, 'the directors do not undertake that the trains shall arrive at the time specified in the time table.' Here I may remark that, irrespective of any notification by the company, the law does not imply any such undertaking, its requisitions being simply that there shall be no failure of punctuality for want of reasonable care and diligence. The notice then adds, 'Nor will the directors be accountable for any loss, inconvenience or injury which may arise from delay or detention;' and subject to their paying every reasonable attention they have expressly fixed on, which, if not so fixed, juries may determine. Before the introduction of railways there were frequently coach proprietors who agreed to perform their promises in so many hours, and, therefore, to use every reasonable means and diligence for that purpose; and if, by reason of their neglect of such means or want of such diligence, they failed to complete their contracts, there can be no doubt that actions must have lain against them. Of course the condition of the roads, which were not under their control, and many other circumstances, and especially sudden accidents, would have been valid defenses to such actions; and, therefore, they were often very difficult to try. Moreover, the proprietors seldom, if ever, entered into these special contracts as to time excepting when there was great competition, and then they used their best endeavors, as did also their servants (who were often stimulated by a system of premiums or fines), to perform these contracts with the greatest exactitude. Actions for the breach of such contracts were consequently very are, and I have not been able to find a report of any case of the kind. In most cases, however, the coach proprietors merely contracted to convey would not be accountable for the consequences of any delay or detention. Since August the notice has been materially changed. The passage about paying every attention to insure punctuality is omitted, and the company expressly promise nothing; but the omission is immaterial, because what they do not promise the law implies against them. The next change is the addition to the stipulation that they will not be responsible for delay, in the words, 'unless upon proof that it arose from the willful misconduct of their servants.' Upon the faith of their present notice, the defendants contend in effect that they are unfettered as to times of starting and arrival, notwithstanding their time tables, in the absence of proof of willful misconduct on the part of their servants. To such a proposition it is somewhat difficult to listen with patience.'"

See, also, Burke *v.* Great Western Railway Co., London Law Jour. for October 24, 1874, in which the court considered the questions involved as to the actual contract of the company and their liability under it. The court said: "I will consider, firstly, the contention of the defendants that the contract between them and the plaintiff was merely to convey him to Henley in a reasonable time, and the contract was not broken by a delay at Twyford, inasmuch as there was another train to Henley at the expiration of an hour which would have conveyed him there in a reasonable time. Now, I at once concede that the contract between the defendants and the plaintiff was to convey the latter to Henley in a reasonable time. Such was the liability of carriers of passengers at common law, and railway companies have only the same liabilities. This is expressly declared by section 89 of the Railway Clauses Act, 1845 (which, I presume, is incorporated in the Great Western Railway Act; at all events, so far as the Henley Branch Railway); but, in-

of any person. Deriving its authority to exercise its functions from the legislature, and its rights being in derogation of private rights, it is bound so to prosecute its business that injury shall not result to others by reason of its own fault or negligence. The same rigid degree of care required to be exercised toward its passengers is not called for, but it must conduct its business as a man of ordinary prudence would conduct a similar business, and whether it has done so or not in a given case is essentially one of fact for the jury,[1] and the question is to be determined in view of the agencies employed, and the consequences of their negligent use or management.[2] In the construction of its road it is liable for all injurious consequences that ensue from a negligent or improper execution of the work. Authority given for the construction of its road does not carry with it authority to construct it in any manner it pleases, but simply to construct it in such a manner as to do the least injury to others.

Mr. Wood, in his treatise upon the Laws of Nuisances (p. 783), has very carefully treated this question, and lays down what we conceive to be the true doctrine warranted by the cases. He says:—

"The question as to how far legislative authority to do an act, which otherwise would be a nuisance, operates to shield those to

dependently of that clause, I do not think that railway companies would be further liable than any other carriers of passengers at common law. What, then, is the liability of carriers of passengers at common law? Simply to use all reasonable means to convey passengers to their destinations in the reasonable times which the passengers to a particular place desire, without specifying any time, and were only bound to perform their contract within a reasonable time, which, as I have already said, was for a jury to determine, regard being had to all the circumstances of the case. Railway companies, on the other hand, have invariably fixed their own times of arrival, and thereby fixed what are reasonable times, and if they fail, from want of due diligence, to perform their contracts, I think that they are clearly liable in the same manner as coach proprietors under similar contracts. *Having the absolute control of their lines, and their lines being less liable to be affected by the weather than the roads, they have in these respects much less difficulty in performing their express contracts than coach proprietors. On the other hand, they are open probably to more numerous and serious accidents as to their engines and carriages than the coach proprietors were as to their coaches and horses. But, however this may be, the effect of weather on the lines and accidents of many kinds will doubtless constitute valid defenses to actions brought against them, as they did against actions brought against coach proprietors under similar circumstances.*"

[1] Davis *v.* R. R. Co., *ante.*

[2] Phila., etc., R. R. Co. *v.* Derby, *ante.*

whom the authority is given, from liability for damages sustained by others therefrom, is one of great importance, and one which has often engaged the attention of courts, and which is now far from being definitely settled.

"It may, however, be stated that a person or corporation authorized by law to do a particular thing, as to build a railroad,[1] a turnpike,[2] a bridge across a navigable stream,[3] or to carry on a particular class of business, as for the manufacture of gas to supply the people of a town or city therewith,[4] so long as they keep within the scope of the power granted, are completely protected from indictment and punishment for a public nuisance, and from proceedings either at law or in equity in behalf of the public therefor.[5] But this is subject to this qualification, *that the nuisance arises as a natural and probable result of the act authorized, so that it may fairly be said to be covered in legal contemplation by the legislature conferring the power.*[6] *If the*

[1] Rex *v.* Pease, 4 B. & A. 30; Rex *v.* Morris, 1 id. 441.

[2] State *v.* Williamstown Turnpike Co., 4 Zabr. (N. J.) 247; State *v.* Clarksville R. & T. Co., 2 Sneed. (Tenn.) 85; Com. *v.* Hancock Free Bridge, 2 Gray (Mass.), 58; State *v.* Scott, 2 Swan. (Tenn.) 332; Beckett *v.* Upton, 33 Eng. L. & Eq. 108.

[3] Jolly *v.* Terre Haute Drawbridge Co., 6 McLean (U. S.), 237; Attorney-General *v.* Hudson River R. Co., 1 Stark. (N. J.) 526; State *v.* Parrott, 71 N. C. 311.

[4] People *v.* Gas-light Co., 64 Barb. (N. Y.) 55; Broadbent *v.* Imperial Gas Co., 7 H. L. 605; Carhart *v.* Auburn Gas-light Co., 22 Barb. (N. Y.) 294.

[5] People *v.* Law, 34 Barb. (N. Y.) 294; People *v.* N. Y. Gas-light Co., 64 id. 55; Carhart *v.* Auburn Gas-light Co., 22 id. 297; People *v.* Platt, 17 Johns. (N. Y.) 195; Davis *v.* Mayor, 14 N. Y. 506; Com. *v.* Reed, 34 Pa. St. 275; Harris *v.* Thompson, 9 Barb. (N. Y.) 350; Rex *v.* Pease, 4 Brad. 30.

[6] In Attorney-General *v.* Bradford Navigation Co., 6 B. & S. 631, the defendants were authorized to construct and maintain a canal, which they proceeded to do in 1774. In 1802 they erected a dam across a stream called Bradford Beck, and made a reservoir of stone at the head of the canal, into which the water was, and held in reserve to supply the canal when the water therein was low. The water thus turned into the canal was impregnated with sewage, and by standing in the canal emitted noxious and unwholesome odors to the nuisance of those living in the vicinity of the canal. This action was brought to restrain the company from turning into this canal any further sewage or other matter calculated to create a nuisance. The defendants admitted that the nuisance existed, but insisted that as they had the right to use the water of Bradford Beck for the purposes of their canal, and that, as they did not pollute the water of the stream or impregnate it with sewage, they could not be made answerable for the nuisance resulting from its use. It appeared that when the canal was built, and down to within three or four years before the commencement of the action, the water of Bradford Beck had been pure, and that the impurity arose from leading into the Beck the sewage from the town of Bradford, which, within a few years, had largely increased in population, so that, although the water was impure, no deposit of an offensive kind took place. The water in the canal was stagnant, and there was no current or flow of water, and the sewage was deposited in the canal, so that when boats passed

nuisance is not the necessary result of the act or work authorized, or if it might be exercised in such a way as to obviate the nuisance, legislative authority will not be inferred from the grant to create the nuisance, and will not operate as a protection or excuse therefor either against an indictment or a suit in behalf of the public at law or in equity to abate the nuisance.[1] Hence it is only when the nuisance is a *necessary* and *probable* result of the act done in pursuance of legislative authority that the grant operates as a protection against indictment or suit therefor. Otherwise it cannot be said to have been contemplated by the grant, and, therefore, is not authorized by it."[2]

The rule seems to be, as stated by Mr. Wood in the same work (p. 784), that "*if negligence can in any measure be predicated of their acts, they are liable for all the consequences resulting therefrom.*" And he proceeds to illustrate this proposition thus: "Where a railroad company are authorized to make excava-

through it it emitted very offensive smells and gases. The court held that although the company was authorized by parliament to construct the canal, and feed it with the water from Bradford Beck, yet, as at that time the water was clear and pure, it could not be held as having been contemplated by parliament that the water would become so impure as to make its use in the canal a public nuisance, and the use of the water was enjoined, as well as a use of the canal in any way so as to create a public nuisance by reason of noxious smells emitted from the water used therein.

[1] Attorney-General *v.* Metropolitan Board of Work, 1 H. & M. 320; Clark *v.* R. Co., 36 Mo. 202, in which it was held that an action would not lie for damages arising from the overflow of land, occasioned by the proper construction of their road-bed. But this applies to only injuries sustained by one whose land is taken and whose damages have been assessed. Attorney-General *v.* Birmingham, 4 K. & J. 528; Imperial Gas Co. *v.* Broadbent, 7 H. L. Cas. 605; Stainton *v.* Woolrych, 23 Beav. 225; Hutton *v.* R. Co., 7 Ha. 259; R. Co. *v.* Archer, 6 Paige (N. Y.), 83; Sandford *v.* R. Co., 24 Pa. St. 378, while companies acting under legislative power are the best judges of the manner in which their works are to be constructed, yet, if they are proceeding to execute them in such a manner as to do unnecessary damage, or inflict unnecessary injury, they are liable therefor. London, etc., R. Co. *v.* Canal Co., 1 Ra. Cas. 225; Coates *v.* Clarence R. Co., 1 R. & M. 181; Rex *v.* East and West India Docks R. Co., 2 Ra. Cas. 380.

[2] See, also, Attorney-General *v.* Bradford Navigation Co., 6 B. & S. 631; People *v.* Gas-light Co., 64 Barb. (N. Y.) 55.

In Clark *v.* Mayor of Syracuse, 13 Barb. (N.Y.) 32, the legislature declared a stream navigable, and afterward authorized the plaintiff to erect a dam upon it. It was held by the court that this authority only protected the plaintiff from the consequences of the nuisance to navigation, and was no protection for nuisances occasioned by the dam in other respects.

In Richardson *v.* Vermont Central R. Co., 25 Vt. 465, it was held that where the defendant in the erection of its railroad made an excavation upon its own land so near to the plaintiff's land adjoining, that his land slid into the excavation, the defendants were liable for the injury, the court holding that their charter gave them no authority to remove the plaintiff's soil.

tions for their road-bed, it is held that *they are bound to make them with reasonable regard to the rights of adjoining owners;* and if they attempt to perform the work without taking reasonable precautions in that regard, a court of equity will restrain them from proceeding until such reasonable precautions are taken.[1] *When the company can exercise its rights in a way that will not be productive of injury to private rights, it is bound so to exercise it,* and a court of equity will always interfere to prevent their exercise in a vexatious or careless way." [2]

If there are two modes in which the work can be done, one of which would create a nuisance and the other not, they are bound to choose the mode that would obviate the nuisance.[3]

[1] Rickett *v.* Metropolitan Railway, L. R., 2 H. L. 175.

[2] R. Co. *v.* Canal Co., 1 Railway Cas. 225.

[3] In the Freehold General Investment Co. *v.* The Metropolitan R. Co., Weekly Notes, 1866, p. 66, the defendants in the construction of their road were building tunnels under valuable houses, and among the rest, under the plaintiff's house. Upon a bill for an injunction to restrain them from proceeding until they had provided proper means for securing the house from further injury — the walls having already begun to crack — the Vice Chancellor in disposing of the question said: "The legislature has given power to the defendants to make their works by means of a tunnel, close to and through the midst of valuable houses, and must have foreseen that some damage would be done. * * * But the company are not only bound to make compensation for the damage sustained, but are bound to prosecute the work skillfully, and, if there are two ways of doing the work, to choose the one that will do the least injury."

In North Staffordshire R. Co. *v.* Dale, 8 E. & B. 836, it was held that a railroad company, having carried a highway over its road by a bridge, was bound at all times not only to keep the bridge in repair, but also all approaches thereto.

In Hamden *v.* N. H. R. Co, 27 Conn. 158, it was held that a railroad company, altering a highway for the purposes of its road, is bound to restore it to its former condition, and that this liability continues until it is so restored, and, until that is done, that it remains a continuing nuisance rendering it liable for all damages, either to the town or individuals.

In Regina *v.* Train, 2 B. & S. 640, an iron tramway laid in a highway so as to cause the wheels of vehicles to skid and to frighten horses, hitting their feet on them, is a nuisance, and that no degree of public benefit will operate as a defense.

In Johnson *v.* Atlantic R. Co., 35 N. H. 569, it was held that it is the duty of a railroad company to construct culverts and ditches sufficiently low to carry off water set back upon lands by the construction of its road, when this can be done without difficulty.

In Sabin *v.* Vermont Central R. Co., 25 Vt. 363, defendant held liable for not removing stones thrown upon land in process of blasting for their road-bed.

In Pittsburgh, etc., R. Co. *v.* Gielleland, 56 Pa. St. 445, it was held that a culvert, so unskillfully constructed as to be insufficient to carry off the water of a stream in ordinary high water, renders the company liable for all injuries resulting therefrom. Terre Haute, etc., R. Co. *v.* McKinley, 33 Ind. 274; Taylor *v.* Grand Trunk R. Co., 48 N. H. 304; Attorney-General *v.* Metropolitan Board of Works, 1 H. & M. 320; and the question of proper execution of the works is a question of fact. Ware *v.* Regents

SEC. 506. **Engines and machinery.**—A railroad company, from its grant to operate the road by steam, does not thereby acquire authority to use engines thereon that are defective in construction so as to scatter coals along the line of its road, endangering the property of those through whose land it passes,[1] nor with smoke-stacks so defectively constructed as to permit the free escape of sparks from its engines, thus exposing property on the line of its road to imminent danger from fire;[2] but in this respect it is bound to adopt the latest improvements in screens or spark protectors, and exercise the highest degree of care to prevent disastrous consequences;[3] and it is held by a very respectable class of cases that the very fact, that a fire results from sparks emitted from the engine, is *prima facie* evidence that the spark protector

Canal Co., 3 De Gex & Jones, 227; Coats *v.* Clarence R. Co., 1 R. & M. 181.

In Matthews *v.* West London Water Works Co., 3 Camp. 402, the defendants were authorized to make excavations in the street to lay their water pipes. In doing so they threw up rubbish without properly guarding the same, whereby a stage coach, which the plaintiff was driving, was overturned and injured, and he, plaintiff, severely injured. Lord ELLENBOROUGH held that the company was clearly liable, even though the work was done by a contractor.

In Waterman *v.* Conn. & Pass. River R. Co., 30 Vt. 610, damages were allowed for injuries from surface water, through the unskillful manner in which the road was constructed. But see Henry *v.* Vt. Central R. Co., 30 id. 638, where injury to land resulting from change in the course of a river by a railroad company in necessary erection of their road, was held not recoverable, though such erections were unskillfully made. Robinson *v.* N. Y. & Erie R. Co., 27 Barb. (N. Y.) 512.

It must lay its track skillfully in a public street, and is liable for injuries resulting from unskillfulness in that respect. Worster *v.* Forty-second Street R. Co., 50 N. Y. 203.

It must not let down the lands of an adjoining owner, whether by skillful or unskillful prosecution of its work. Richardson *v.* Vt. Central R. Co., 25 Vt.

Authority to erect a bridge over a navigable stream, if the navigation is not impeded, does not authorize it even temporarily to obstruct it while erecting the bridge. Memphis & Ohio R. Co. *v.* Hicks, 5 Sneed (Tenn.), 427.

In Lawrence *v.* Great Northern R. Co., 4 Eng. Law & Eq. 265, held liable for not providing proper flood-gates for escape of water, which by erection of its road-bed were prevented from spreading as formerly, even though the act did not provide for their being made.

[1] King *v.* Morris and Essex R. Co., 18 N. J. Eq. 397; Cleavelands *v.* Grand Trunk R. Co., 42 Vt. 449.

[2] Bedell *v.* L. I. R. Co., 44 N. Y. 367; Gandy *v.* Chicago, etc., R. Co., 30 Iowa, 420; Kellogg *v.* Chicago, etc., R. Co., 26 Wis. 223; Case *v.* Northern Cent. R. Co., 59 Barb. (N. Y.) 644; Rood *v.* N. Y. Cent. R. Co., 18 id. 80; Jackson *v.* Chicago, etc., R. Co., 31 Iowa, 176; Kansas, etc., R. Co. *v.* Butts, 7 Kans. 308; Spaulding *v.* Chicago, etc., R. Co., 30 Wis. 110; Ill., etc., R. Co. *v.* McClelland, 42 Ill. 355; Huyett *v.* Phila., etc., R. Co., 23 Pa. St. 373; Fero *v.* Buffalo, etc., R. Co., 22 N. Y. 209.

[3] It must employ the best precautions in use. Frankford, etc., Turnpike Co. *v.* Phila., etc., R. Co., 54 Pa. St. 345.

is defective and throws the burden upon the company of proving the contrary.[1]

But there is considerable conflict upon this question, and in several of the states it is held that negligence will not be inferred from the mere fact that a fire is set from sparks.[2] And even in those states where such a presumption is raised, it is held that the presumption may be overcome by slight evidence of diligence in this respect.[3]

Sec. 507. **Application of the maxim, sic utere tuo ut alienum, non lædas.** — The time-honored maxim, *sic utere tuo ut alienum, non lædas*, has the same application to railway companies and other corporations that it has to individuals, qualified in some respects by the grant of authority to it and extended in others because of the dangerous agencies employed and the consequent disaster from their negligent management. The application of this maxim cannot, perhaps, be better illustrated than in the case of fires resulting from the accumulation of dry grass and other combustibles in the vicinity of railroads. Because the company employs fire as one of the agencies of its business, and because by its employment the property of all persons upon its line is placed in peril of being destroyed by fire, it is held bound, at its peril, to exercise great care to prevent such consequences. Thus, it has been held that, if in dry times it permits the accumulation of grass and weeds upon its roadway, and by reason of their ignition fire spreads to adjoining premises, it is liable for the injuries that ensue therefrom,[4] even though the plaintiff has permitted such vegetation to accumulate or grow upon his own land, and that such vegetation is a secondary cause of the damage done thereby. The owners of land adjoining railways have a right to presume that the railway company will discharge its duty, and it is not negligence *per se* on their part to assume that he is not exposed to dangers that can only

[1] Bedell *v.* L. I. R. Co., *ante;* St. Louis, etc., R. Co. *v.* Montgomery, 39 Ill. 335; Case *v.* R. Co., *ante;* Spaulding *v.* Chicago, etc., R. Co., 30 Wis. 110; Clemens *v.* Hannibal, etc., R. Co., 53 Mo. 366; Cleavelands *v.* Gd. Trunk R. Co., 42 Vt. 449.

[2] Indianapolis, etc., R. Co. *v.* Paramore, 31 Ind. 143; Gandy *v.* Chicago, etc., R. Co., 30 Iowa, 420.

[3] Spaulding *v.* Chicago, etc., R. Co., *ante.*

[4] Webb *v.* Rome, Watertown, etc., R. Co., 49 N. Y. 420; Kellogg *v.* Chicago, etc., R. Co., *ante;* Bass *v.* Chicago etc., R. Co., 28 Ill. 9; Flynn *v.* San Francisco, etc., R. Co., 40 Cal. 14; Ill. Central R.Co. *v.* Nunn, 51 Ill. 78; Fitch *v.* Pacific R. Co., 45 Mo. 322.

occur as a result of a neglect of duty on the part of the company.[1] It is not, perhaps, proper to say that the company is guilty of negligence *per se*, to permit the accumulation of such vegetation and combustible materials along its road, as some of the cases would seem to hold, but it is evidence to go to the jury to establish negligence, and will sustain a verdict, if, from all the facts and circumstances, they shall find it negligence in fact.[2]

So, too, in the use of fuel for its engines, the company is bound to exercise due care, and employ that which is the least likely to produce ill results;[3] and the question as to whether the employment of certain kinds of fuel is negligent, or whether it was negligently used, is for the jury in view of the circumstances.[4]

SEC. 508. **Contributory negligence.** — The question, as to whether the plaintiff has been guilty of such contributory negligence as disentitles him to a recovery, is a question of fact for the jury in view of all the circumstances, as in leaving stubble and dry grass standing in his fields along the track of the railway,[5] and the question is to be determined in view of the circumstances, the uses to which the field is devoted, and as to what is usual and ordinary under such circumstances.[6] It is held in some of the cases, that the owner of adjoining lands, in dry times, is bound to plough around them to guard against the destruction of his property by fires originating from the company's negligence,[7] and that the jury are to say which was the most negligent, the plaintiff or defendant,[8] but this doctrine is not believed to be predicated upon principle or to be consistent with sound public policy. The idea that a person devoting his property to its ordinary and usual purposes, is bound to devote it to some other use, or to devote it to

[1] Kellogg *v.* Chicago, etc., R. Co., 26 Wis. 223; Webb *v.* Rome, etc., R. Co., *ante;* Flynn *v.* San Francisco, etc., R. Co., *ante;* Fitch *v.* Pacific, etc., R. Co., *ante.*

[2] Webb *v.* Rome, etc., R. Co., *ante;* Ill. Central R. Co. *v.* Nunn, *ante;* Fitch *v.* Pacific, etc., R. Co., *ante;* Spaulding *v.* Chicago, etc., R. Co., *ante.*

[3] Chicago, etc., R. Co. *v.* Quaintance, 58 Ill. 390.

[4] Lackawanna, etc., R. Co. *v.* Doak, 52 Pa. St. 379.

[5] Flynn *v.* San Francisco, etc., R Co., 40 Cal. 14; Ill. Cent. R. Co. *v.* Nunn, 51 Ill. 78.

[6] Kellogg *v.* Chicago, etc., R. Co., 26. Wis. 223.

[7] Keese *v.* Chicago, etc., R. Co., 30 Iowa, 78; Ill., etc., R. Co. *v.* Nunn, 51 Ill. 78.

[8] Ill., etc., R. Co. *v.* Nunn, *ante.* See also, Field on Dam., ch.

no use at all, because possibly by devoting it to its usual lawful purposes, through the negligence of some other person owning adjoining lands it may be injured, is imposing burdens upon innocent parties, that the law is not accustomed to impose, and, notwithstanding the fact that some courts have seen fit to hold a different rule, there can be no question that that is the soundest and most consistent doctrine, that permits adjoining owners to presume that railroad companies will exercise due care in the management of their business, and that negligence cannot be predicated against him because he relies upon such presumption.[1]

Sec. 509. **Consequential damages.** — For merely consequential damages, from constructing or maintaining their works, where corporations are vested with the right of eminent domain, and the injury is the natural and probable result thereof, no liability exists,[2] except so far as the charter or the statute gives a remedy.[3] But if they are not invested with the right of eminent domain they are liable for injuries resulting to others either from the erection of their works or the prosecution of their business.[4] So, it has been held, that where a corporation is authorized to erect factories and mills, the act does not shield it from liability for injuries resulting from the improper blasting of rocks in excavating to lay the foundation of their buildings;[5] nor where it is authorized to erect and maintain dams, from the injuries resulting to upper owners from the flooding of their lands.[6] So, a religious corporation, having authority to erect and maintain a church, does not thereby acquire the right to maintain unsafe buildings alongside a public street;[7] and so, generally, in all cases, a corporation is liable for any act done by it, or by its agents, within the scope of their authority, precisely the same as an individual is, except so far as the act is fairly covered by the grant of authority to it by the legislature.

[1] Kellogg *v.* Chicago, etc., .R. Co., *ante*. See, also, Field on Dam., § 664.
[2] N. Y. & Erie R. Co. *v.* Young, 33 Pa. St. 175.
[3] Monongahela Bridge Co. *v.* Kirk, 46 Pa. St. 112.
[4] Pottstown Gas Co. *v.* Murphy 39 Pa. St. 257.
[5] Hay *v.* Cohoes Co., 2 N. Y. 160.
[6] Hooksett *v.* Amoskeag Man. Co., 44 N. H. 105.
[7] Church of the Ascension *v.* Buck hart, 3 Hill (N. Y.), 193.

SEC. 510. **Injury to persons and property by running of trains.** — A railroad company, irrespective of any statute, is bound to exercise due care in the running of its trains, and, while it may run its trains at any rate of speed it deems necessary, either at road-crossings or elsewhere, and at common law is not absolutely bound to ring the bell or blow the whistle of its engine, yet, if, in consequence of a neglect on its part to take proper precautions to signal its approach to a highway crossing, a person, in the exercise of due care, himself, is injured, it is liable in damages therefor. It is bound to do no specific act, *but must, at its peril*, do every thing that ordinary prudence requires should be done by it, to prevent injury to parties not in fault. Therefore, while, as previously stated, by the common law there is no absolute duty imposed upon it to signal its approach to a road crossing, *yet, if ordinary prudence required that it should do so, and because of a failure to do that or some other equally effective act to indicate the approach of its trains*, a person in the exercise of due care is injured, the jury may, from its failure in these respects, find it guilty of negligence and it becomes liable for the consequences.[1]

Even where the statute requires that it shall ring the bell or blow the whistle of the engine within a certain distance of a road crossing, a neglect to comply with such regulation is not of itself sufficient to establish its liability for an injury inflicted at the crossing,[2] nor, on the other hand, does a compliance with such statutory requirement necessarily constitute the full measure of its duty in a given case, and absolve it from liability. It is bound to exercise due care, and if, under the circumstances, ordinary prudence required that it should take other precautions, it is bound to do so.[3] It must exercise due care, and as to what *is* due care, is a question for the jury, in view of the circumstances, taking into

[1] Penn. R. Co. *v.* Barnett, 59 Pa. St. 259.

[2] Butterfield *v.* Western R. Co., 10 Allen (Mass.), 532; Spencer *v.* Ill. Cent. R. Co., 29 Iowa, 55; Toledo, etc., R. Co. *v.* Goddard, 25 Ind. 185; North. Penn. R. Co. *v.* Heilman, 49 Pa. St. 60; Galena, etc., R. Co. *v.* Dill, 22 Ill. 264; Warner *v.* N. Y. Cent. R. Co., 44 N. Y. 465; Allyn *v.* Boston and Albany R. Co. 105 Mass. 77; Chicago, etc., Co. *v.* McKean, 40 Ill. 218; Hanover R. Co. *v.* Coyle, 55 Pa. St. 396.

[3] Richardson *v.* N.Y.Cent. R.Co., 45 N. Y. 846; O'Mara *v.* Hudson R. Co., 38 id. 445; Duffy *v.* Chicago, etc., R. Co., 32 Wis. 269.

consideration the location of the crossing and its surroundings, the situation of the track in reference to the highway, and all the attendant circumstances.[1] Greater caution is required in the streets and at crossings of cities and villages than in rural districts,[2] and at crossings where the track is obstructed or hidden from view of a person approaching it from the highway, than where an approaching train can be seen.[3]

Because the legislature has conferred authority upon the company to build and operate its road across highways, it does not thereby acquire the exclusive right to a free passage which makes it incumbent upon travelers upon the highway to keep off the track at their peril, but its franchise is restricted by public necessity and convenience and must be exercised with due regard thereto,[4] and the rights of the company and of travelers are correlative, and neither has a right superior to the other,[5] and both must exercise due care in the exercise of their respective rights. In order to entitle a person to recover he must show due care on his own part, and a want of due care on the part of the company.[6] The mere fact that the company was negligent, that it omitted to give the signals required by statute, or to take other proper precautions, will not entitle the plaintiff to a recovery, if he was also guilty of negligence contributing to the injury. *The duty of being careful rests upon both, the company and the traveler.* The rule seems to be well established that a traveler approaching a crossing is bound to exercise ordinary care, such care as is fairly commensurate with the nature of the risk. If he can see for a long distance up and down the track *he is bound to look to see whether a train is approaching*, and if the track can only be seen for a short distance, *he is bound to look and listen*, for an approaching train, *and where, by the exercise of the senses of hearing*

[1] West *v.* New Jersey, etc., R. Co., 32 N. J. 91; Milwaukee, etc., R. Co. *v.* Hunter, 11 Wis. 160.

[2] Warner *v.* N. Y. C. R. Co., 44 N. Y. 465.

[3] Mackay *v.* N. Y. C. R. Co., 35 N. Y. 75; Duffy *v.* Chicago, etc., R. Co., 32 Wis. 269; Chicago, etc., R. Co. *v.* Triplett, 38 Ill. 482; Milwaukee, etc., R. Co. *v.* Hunter, *ante;* Richardson *v.* N. Y. C. R. Co., *ante;* Allyn *v.* Boston, etc., R. Co., 105 Mass. 77; Brendell *v.* Buffalo, etc., R. Co., 27 N. Y. 534.

[4] Pittsburg, etc., R. Co. *v.* Dunn, 56 Pa. St. 280; Toledo, etc., R. Co. *v.* Goddard, 25 Ind. 185.

[5] Galena, etc., R. Co. *v.* Dill, *ante.*

[6] Grippen *v.* N. Y. C. R. Co., 40 N. Y. 34.

and seeing, he might have avoided the injury, no recovery can be had. No person has a right to depend entirely upon the care and prudence of others; but is bound himself to exercise due care, which must be measured by the nature of the risk and the consequences of inattention to his duty. If after having exercised his senses, without hearing or seeing an approaching train near the crossing, he is injured, by reason of the negligence of the company to blow the whistle or ring the bell, or to signal its approach in some equally efficient manner, the company is responsible therefor.[1] Every person is bound to know that a railroad crossing over a highway over which trains are often running is a place of more than ordinary danger, and is bound to exercise a degree of care commensurate therewith,[2] and no presumption can be drawn in favor of the plaintiff, but he must show due care on his part.[3] But if negligence on the defendant's part is established, the court will not presume that the plaintiff was negligent, but will leave it for the jury to say whether there is any evidence of his negligence.[4] He is bound to look out for the crossing, and the fact that he did not see it, or know that he was approaching it, will not excuse him.[5] But if he was a stranger in that section and did not know that there was a crossing over the road, and the company neglected to signal its approach, the rule would be otherwise,[6] as would also undoubtedly

[1] Artz *v.* Chicago, etc., R. Co., 34 Iowa, 153; St. Louis, etc., R. Co. *v.* Manly, 58 Ill. 300; Dodge *v.* R. Co., 34 Iowa, 279; McCall *v.* N. Y. C. R. Co., 54 N. Y. 642; Haight *v.* N Y. C. R. Co., 7 Lans. (N. Y.) 11; Gonzales *v.* N. Y. & Harlem R. Co., 38 N. Y. 440; Warner *v.* N. Y. C. R. Co., 44 N. Y. 465; Spencer *v.* Ill. Cent. R. Co., 29 Iowa, 55; Wilcox *v.* Rome, etc., R. Co., 39 N. Y. 358; Wheelock *v.* Boston, etc., R. Co., 105 Mass. 203; Ernst *v.* Hudson R. Co., 39 N. Y. 61; Illinois, etc., R. Co. *v.* Baches, 55 Ill. 379; Toledo, etc., R. Co. *v.* Goddard, 25 Ind. 185; Allyn *v.* Boston & Albany R. Co., 105 Mass. 77; Lehigh, etc., R. Co. *v.* Hall, 61 Pa. St. 361; Mackey *v.* N. Y. C. R. Co., 35 N. Y. 75; Cleveland, etc., R. Co. *v.* Terry, 8 Ohio St. 570; Wilds *v.* N. Y. C. R. Co., 29 N. Y. 315; Central R. Co. *v.* Dixon, 42 Ga. 327; Gorton *v.* Erie R. Co., 45 N. Y. 660; Rothe *v.* Milwaukee R. Co., 21 Wis. 256; Eaton *v.* Erie R. Co., 51 N. Y. 545; Mentz *v.* Second Av. R. Co., 3 Abb. App. Cas. (N. Y.) 274; Sweeney *v.* Old Colony R. Co., 10 Allen (Mass.), 368; Morse *v.* Erie R. Co., 65 Barb. (N. Y.) 491; Detroit *v.* Van Steinburgh, 17 Mich. 99; Beisiegel *v.* R. Co., 40 N. Y. 9; Baxter *v.* T. & B. R. Co., 41 id. 502.

[2] Ill. Cent. R. Co. *v.* Baches, 55 Ill. 379.

[3] Warner *v.* N. Y. Cent. R. Co., 44 N. Y. 146.

[4] Lehigh, etc., R. Co. *v.* Hall, *ante*.

[5] Allyn *v.* Boston, etc., R. Co., 105 Mass. 77; Butterfield *v.* Western, etc., R. Co., 10 Allen (Mass.), 532; Hanover R. Co. *v.* Coyle, 55 Pa. St. 396.

[6] Hanover R. Co. *v.* Coyle, *ante*; Butterfield *v.* Western R. Co., *ante*

be the case if the injury happened at night, or upon a very foggy day, when, from the darkness or fog, the traveler was unable to see the crossing.[1] If he exercises his senses the best he can, and can neither see nor hear an approaching train, he has a right to presume that none is approaching, because he has a right to presume that the company would discharge its duty by giving the necessary signals.[2] The traveler must use his eyes and ears as a prudent man would do;[3] but if the company has built its track in such a way, or has erected obstructions, or left cars standing in such a manner as to prevent the traveler from seeing an approaching train, he is excused from looking, because the law does not require a person to do a useless act, and if he listens and does not hear the train, he cannot be charged with contributory negligence.[4] But if the proper signals are given, if he ventures upon the track, although he miscalculated as to the chances of crossing, the risk is his, unless negligence in some other respect is chargeable to the company,[5] as if the train is being run at a greatly increased rate of speed.[6] But if a view of the track can be had, the mere fact that no signals of the approach of the train were given will not excuse the traveler from looking and listening.[7] If the company is required by statute or municipal ordinance to keep a flagman at a crossing, or if it has usually done so, to warn travelers of the approach of trains and when it was unsafe to pass, its neglect to do so, or the giving of a false signal by the flagman will render it liable for injuries resulting, although the train is approaching in plain sight.[8] If a person, in the exercise of due care in attempting to cross a railway, through no fault of his gets the wheels of his vehicle caught in the track so that he cannot extricate them in season to avoid an injury, he is not precluded

[1] Hackford *v.* N. Y. Cent. R. Co., 13 Abb. Pr. (N. S. N. Y.) 18.

[2] Tabor *v.* Missouri Valley R. Co., 46 Mo. 353; Kennayde *v.* Pacific R. Co., 45 id. 255; Eagan *v.* Fitchburg R. Co., 101 Mass. 315; James *v.* Great Western R. Co., L. R., 2 C. P. 634 *n.*; Kennayde *v.* Pacific R. Co., 45 Mo. 255.

[3] Nicholson *v.* Erie R. Co., 41 N. Y. 525; Baxter *v.* T. & B. R. Co., 41 id. 502

[4] McGuire *v.* H. R. Co., 2 Daly (N. Y. C. P.), 76.

[5] Van Schaick *v.* Hudson R. Co., 43 N. Y. 527; Chicago, etc., R. Co. *v.* Fears, 53 Ill. 115.

[6] Madison, etc., R. Co. *v.* Taffe, 37 Ind. 364; Richardson *v.* N. Y. Cent. R. Co., 45 N. Y. 846.

[7] Gorton *v.* Erie R. Co., *ante*; Havens *v.* Erie R. Co., 41 N. Y. 296.

[8] Newson *v.* N. Y. C. R. Co., 29 N.Y 383; Sweeny *v.* Old Colony R. Co., 10 Allen (Mass.), 368; Spencer *v.* Ill. Cent R. Co., 29 Iowa, 55.

from a recovery, if by due care on the company's part the injury could have been avoided,[1] and where the railway is carried across the highway in such a manner that a person approaching can neither see nor hear the train distinctly, until too late to avoid the injury, the company is liable.[2] The mere fact that a person sees or hears an approaching train does not preclude him from an attempt to cross if he had ample time to do so, except for the fact that the train was being run at an *unusual* rate of speed. The simple question is whether, *knowing* the usual length of time it took the train to reach the crossing, *as a prudent man*, he was justified in making the attempt.[3] A person is not bound *to stop his team* to look and listen,[4] as is held in Pennsylvania,[5] but is merely bound to do that which is suggested by common prudence in view of the peril to which he may be exposed. If he hears the signal, but does not see the train and does not know the distance at which it is from the crossing, *as a prudent man* there would seem to be no doubt that it would be his duty to wait until it passed, and if he is induced to attempt to pass by reason of a false signal given by a flagman, he cannot be charged with negligence; nor can he be charged with negligence if he knows the distance at which the law requires the signal to be given by the train before it reaches the crossing, but is injured by reason of the unusual speed at which the train is being driven, if, except for that, he would have had ample time to pass, or if the signal was not given as early as it should have been,[6] unless the plaintiff knew, or could have known by the exercise of due care, that the train was being run at an unusual rate of speed.[7] The mere fact that he confidently believed that he had ample time to cross,[8] or that he might have done so except that his horse became frightened does not excuse him. The question is whether he was in

[1] Milwaukee R. Co. *v.* Hunter, 11 Wis. 160; Pittsburg, etc., R. Co. *v.* Dunn, 56 Pa. St. 280.

[2] Richardson *v.* N. Y. Cent. R. Co., 45 N. Y. 846; Gillett *v.* Western R. Co., 8 Allen (Mass.), 560.

[3] Detroit, etc., R. Co. *v.* Van Steinburg, 17 Mich. 99.

[4] Davis *v.* N. Y. Cent. R. Co., 47 N. Y. 400; Duffy *v.* Chicago, etc., R. Co., 32 Wis. 269.

[5] Lehigh Valley R. Co. *v.* Hall, 61 Pa. St. 361; Pittsburg, etc., R. Co. *v.* Dunn, 56 id. 280. But it is now held that the plaintiff is not bound to prove affirmatively that he *stopped* and looked and listened, but that the jury may say *from all the circumstances* whether he exercised due care. Penn. R. Co. *v.* Weber, 72 Pa. St. 27.

[6] Spencer *v.* Ill. Cent. R. Co., 27 Iowa, 55; Havens *v.* Erie R. Co., *ante;* Detroit, etc., R. Co. *v.* Van Steinburg, *ante.*

[7] Langhoff *v.* Milwaukee, etc., R. Co., 23 Wis. 43.

[8] Wilds *v.* Hudson R. Co., 29 N. Y. 315.

the exercise of such care as a prudent man would have exercised under the same circumstances.[1]

The liability of the company depends upon the question whether the act producing the injury was negligent, and whether the plaintiff was free from fault contributory thereto, and this question is for the jury in view of all the circumstances material to the issue.[2]

Sec. 511. **Trespassers on the tracks.** — The fact that a person is a trespasser on its track does not absolve the company from preventing the infliction of an injury upon him, if possible. They cannot run over a person or cattle or horses upon its track, simply because they have no right there, or because they do not leave the track when signals for that purpose are made; but, as to persons, at least, they have a right to presume that they will obey the ordinary instincts of humanity and self-preservation, and avoid impending danger if possible, but if he exhibits no inclination to do so, *and there is time to stop the train, and it can be done without danger to those upon it*, after it becomes patent that the person or animals will not leave the track, they are bound to stop. What *is* due care under such circumstances is a question dependent upon the facts of each case, and is essentially one for the jury. From *all* the facts and circumstances of the case the jury must say whether the company failed to discharge its duty.[3] In such cases the negligence of the company must be so gross as to imply

[1] Eagan v. Fitchburg R. Co., 101 Mass. 315.

[2] McGuire v. Hudson R. Co., 2 Daly (N. Y. C. P.), 76; Baltimore, etc., R. Co. v. The State, 29 Md. 252.

[3] In Houston, etc., R. R. Co. v. Sympkins, 54 Tex. 615, the defendant was held liable for running over a person who was lying on the track in plain sight of approaching trains, he having fallen there in a fit while walking on the track, the court saying, however, that the rule would be different if he had fallen there from intoxication, as in the latter event the person injured would be treated as guilty of contributory negligence. Herring v. Wilmington, etc., R. R. Co., 10 Ired. (N. C.) 402; Houston, etc., R. R. Co. v. Smith, 52 Tex. 178; Isabell v. St. Joseph, etc., R. R. Co., 60 Mo. 475. The company is bound to use reasonable care to prevent injury to persons on its track, and as to what is reasonable care is a question for the jury in view of all the circumstances; Baltimore, etc., R. R. Co. v. State, 33 Md. 542; and even if he is intoxicated the same rule prevails. Weymire v. Wolf, 52 Iowa, 533; as it also was with reference to children playing on the track; Kansas, etc., R. R. Co. v. Fitzsimmons, 22 Kan. 686; Finlason v. Chicago, etc., R. Co., 1 Dill. (U. S. C. C.) 579; Stout v. Sioux City, etc., R. Co., 2 id. 294; Toledo, etc., R. Co. v. Riley, 47 Ill. 408; Brand v. Troy, etc., R. Co., 8 Barb. 368.

a disregard of consequences and a willful disregard of duty, and that to such an extent as to entirely overcome the effect of the contributory negligence of the person injured,[1] under the rule that the party guilty of the greatest wrong must be considered the aggressor.[2] But to have that effect, the negligence of the company must be so much greater than that of the person injured, as to clearly preponderate.[3]

SEC. 512. **Different rule as to children.** — The same rule as to contributory negligence does not apply to children that is applied to adults, but in actions in their own name, or for their own benefit, their age is to be considered,[4] although in some states it is held that no distinction exists on account of age,[5] and in others, that contributory negligence cannot be imputed to a child, too young to appreciate or comprehend the danger.[6]

But when an action is brought in the name of a parent, no recovery can be had if negligence can be imputed to him in permitting the child to be at large at the place where the injury happened,[7] but the negligence of the parent cannot be imputed to the child.[8] The question whether a railroad company is guilty of negligence for injuries inflicted upon a child is one of fact, to be determined according to the circumstances of each case. It is for the jury to say whether the injury resulted from the omission by the defendant of any duty. If so, liability attaches; if not, it does not.[9]

[1] Lafayette, etc., R. Co. v. Adams, 26 Ind. 76; Illinois Central R. Co. v. Hutchinson, 47 Ill. 408.

[2] Macon, etc., R. Co. v. Davis, 27 Ga. 113.

[3] Chicago, etc., R. Co. v. Payne, 49 Ill. 499; State v. Manchester, etc., R. Co., 52 N. H. 528; Macon, etc., R. Co. v. Winn, 26 Ga. 250.

[4] Bellefontaine, etc., R. Co. v. Snyder, 18 Ohio St. 399; Warner v. R. Co., 6 Phila. (Penn.) 537; Railr. Co. v. Stout, 17 Wall. (U. S.) 657; Daley v. Norwich, etc., R. Co., 26 Conn. 591; Boland v. Missouri, etc., R. Co., 36 Mo. 484.

[5] Honegsberger v. Railr. Co., 1 Keyes (N. Y.), 570; Burke v. Broadway, etc., R. Co, 49 Barb. 529; Bannon v. Baltimore, etc., R. Co., 24 Md. 108.

[6] Chicago, etc., R. Co. v. Gregory, 58 Ill. 226; Mahoney v. Railr. Co., *ante;* Schmidt v. Milwaukee, etc., R. Co., 23 Wis. 186; Kay v. Penn., etc., R. Co., 65 Penn. St. 269; Glassey v. Railr. Co., 57 id. 172.

[7] Jeffersonville, etc., R. Co. v. Bowen, 40 Ind. 545; Pittsburg etc., R. Co. v. Pearson, 72 Penn. St. 169; Ihl v. 42d St. Railw. Co., 47 N. Y. 317.

[8] Glassey v. Railr. Co., *ante;* Daley v. Norwich, etc., R. Co., 26 Conn. 591; Bellefontaine, etc., R. Co. v. Snyder, 18 Ohio St. 399; Field on Dam., § 195.

[9] Glassey v. Railr. Co., *ante;* Kay v. Penn. R. Co., 65 Penn. St. 269; Meyer v. Midland, etc., R. Co., 2 Neb. 319.

Sec. 513. **Injuries to animals.** — For injuries to animals trespassing upon its track, through no fault of the company, the company is not liable, unless the injury was inflicted through gross negligence of its servants, or willfully,[1] but if the injury was the result of accident,[2] or the plaintiff contributed thereto by permitting his cattle to run at large, no recovery can be had unless the negligence of the company was gross.[3]

But if by statute the company is required to erect cattle-guards at highway crossings[4] or fences to keep cattle off its track, it is liable for injuries resulting from a failure on its part to erect and maintain the same.[5]

But its neglect to erect and maintain fences only inures to the benefit of adjoining owners, or those having cattle upon his premises by his consent, and does not enable one whose cattle have escaped upon his land from the highway or from adjoining premises, to maintain an action.[6] In Missouri it is held that when the statute requires the company to maintain a fence, and it neglects to do so, the adjacent owner is entitled to recover irrespective of the question of negligence.[7]

Sec. 514. We have thus briefly reviewed the liability of railroad corporations for the negligent or wrongful acts of its agents, because such corporations are the most prominent in litigation involving these questions. The same principles apply to *all* corporations with different degrees of intensity, according to the purposes of the corporation, and the consequences of negligent or improper conduct on the part of its agents. Corporations must

[1] Indianapolis, etc., R. Co. v. Petty, 30 Ind. 261; Antisdell v. Chicago, etc., 26 Wis. 145; Jackson v. R. & B. R. Co., 25 Vt. 150; Quimby v. Vt. Central R. Co., 23 id. 387; Pittsburgh, etc., R. Co. v. Methoen, 21 Ohio St. 586; Tower v. Providence, etc., R. Co., 2 R. I. 404; Stearns v. Old Colony, etc., R. Co., 1 Allen (Mass.), 493; Knight v. New Orleans, etc., R. Co., 15 La. Ann. 105; New Albany, etc., R. Co. v. McNamara, 11 Ind. 543.

[2] Garris v. Portsmouth, etc., R. Co., 2 Ired. (N. C.) 324.

[3] Trow v. Vt. Ceutral R. Co., 24 Vt. 487; Hance v. Cayuga, etc., R. Co., 26 N. Y. 428.

[4] Bradly v. Buffalo, etc., R. Co., 34 N. Y. 427; McDowell v. N. Y. C. R. Co., 37 Barb. 195; Tracy v. N. Y. C. R. Co., 38 N. Y. 433.

[5] Shepard v. Buffalo, etc., R. Co., 35 N. Y. 641; Tallman v. Syracuse, etc., R. Co, 4 Keyes, 128.

[6] Town v. Cheshire, etc., R. Co., 21 N. H. 363; Horn v. Atlantic, etc., R. Co., 35 id. 169; Jackson v R. & B. R. Co., 25 Vt. 150. *Contra*, see Browne v. Providence, etc., R. Co., 12 Gray (Mass.), 55.

[7] Powell v. Hannibal, etc., R. Co., 35 Mo. 457; Bigelow v. Northern Mo. R. Co., 48 id. 510.

necessarily act through agents, and the acts of those agents within the scope of their express or implied authority are binding upon them, whether arising out of contracts or tortious acts. The agents, within the line of their duty, are treated as the corporation itself, and the corporation is liable therefor as much as though the officers of the corporation had themselves performed the act. The principal conflict in the cases has arisen mainly from the fact that a proper distinction has not always been taken between the agents of corporations and individuals. In the very nature of things corporations can only discharge their functions through agents; that is contemplated by the law creating them, and in the peculiar sphere of his duty each agent, from the highest to the lowest, stands in the place of and represents the corporation. *His acts are the acts of the corporation itself. For all practical purposes as to such duties he is the corporation.* POTTER, J., in a very able opinion in a New York case,[1] which is approvingly cited by Mr. Wood in his Law of Master and Servant (p. 887), gives expression to the real distinction. He says: "A corporation cannot act personally. It requires some person to superintend structures, to purchase and control the running of cars, to employ and discharge men and provide all needful appliances. This can only be done by agents. When the directors themselves personally act as such agents, they are the representatives of the corporation; they are the executive head or master; their acts are the acts of the corporation; the duties above described are the duties of the corporation. *When these directors appoint some other person than themselves to superintend and perform all these executive duties for them, then such appointee equally with themselves represents the corporation as master in all these respects.*" *The real test of the liability is, whether the act was one within the scope of the agent's authority, real or apparent.* Was it an act done in doing that which he was authorized to do and as an incident to it?[2] The principal in all cases takes the risk of all the consequences of a wrongful execution of duties on the part of any person whom he employs *in whatever capacity.*[3]

[1] Brickner v. Railr. Co., 2 Lans. (N. Y.) 506, and affirmed, 49 N. Y. 672.

[2] Wood's Law of Master and Servant, chap. 13.

[3] Ramsden v. Bost. & Alb. R. Co., *ante;* Passenger R. Co. v. Young, 21 Ohio St. 518; 8 Am. Rep. 78; Little Miami R. Co. v. Wetmore, 19 Ohio St.

"The question usually presented," says Mr. Wood (Law of Master and Servant, p. 533), "is whether, as a matter of fact, or of law, the injury was received under such circumstances that, under the employment, the master can be said to have *authorized* the act, for if he did not, either *in fact* or *in law*, he cannot be made chargeable for its consequences, because, not having been done under authority from him, *express* or *implied*, it can, in no sense, be said to be his act, and the maxim *qui facit per alium facit per se* does not apply. The test of liability in all cases depends upon the question whether the injury was committed by the authority of the master expressly conferred, or fairly implied from the nature of the employment and the duties incident to it."[1]

Sec. 515. **Instances of liability for other torts of servants.** — A corporation may be held chargeable for a trespass committed by its servants or agents upon the lands of another;[2] for

131; Limpus v. Gen. Omnibus Co., 1 H. & C. 541; Higgins v. Watervliet Turnpike Co., 46 N. Y. 23; Sherley v. Billings, 8 Bush (Ky.), 147; 8 Am. Rep. 541; Howe v. Newmarch, 12 Allen (Mass.), 49; Bryant v. Rich, 106 Mass. 180; 8 Am. Rep. 311; Jeffersonville R. Co. v. Rogers, 38 Ind. 116; 10 Am. Rep. 103; Hewett v. Swift, 3 Allen (Mass.), 420; Holmes v. Wakefield, 12 id. 580; Moore v. Fitchburg R. Co., 4 Gray (Mass.), 465; Seymour v. Greenwood, 7 H. & N. 356; Sanford v. Eighth Ave. R. Co., 23 N. Y. 343; Goff v. Gt. Northern R. Co., 3 El. & El. 672; Poulton v. London, etc., R. Co., L. R., 2 Q. B. 534; Pickens v. Diecker, 21 Ohio St. 212; 8 Am. Rep. 55. The master is liable for what his servant does in the course of his employment, but not for acts entirely disconnected with it, for, in the first instance, the act is the act of the master, while in the latter it is the act of the servant; Aldrich v. Boston, etc., R. Co., 100 Mass. 31; and the difficulty in determining who is liable is in determining whose act produced the injury. That is, whether the act is properly chargeable to the master or is purely that of the servant. Bryant v. Rich, *ante*. No precise rule for determining this question can be given and in each case it is a question for the jury in view of the facts and circumstances.

[1] Reedie v. London, etc., Railway Co., 4 Exch. 244; Bartonshill Coal Co. v. Reid, *post;* Cosgrove v. Ogden, 49 N. Y. 255; O'Connell v. Strong, Dudley (S. C.), 265; Andrus v. Howard, 36 Vt. 248; Luttrell v. Hazen, 3 Sneed (Tenn.), 20; Drew v. Sixth Av. R. Co., 26 N. Y. 49; Brown v. Purviance, 2 H. & G. (Md.) 316; Howe v. Newmarch, 12 Allen (Mass.), 49; Southwick v. Estes, 7 Cush. (Mass.) 385; Duggins v. Watson, 15 Ark. 118; Armstrong v. Cooley, 10 Ill. 509; Weed v. Panama R. Co., 17 N. Y. 362; Wanstall v. Pooley, 6 Cl. & F. 910 *n;* Priester v. Augley, 5 Rich. (S. C.) 44; Jones v. Glass, 13 Ired. (N. C.) 305; Patten v. Rea, 2 C. B. (N. S.) 606; Yates v. Squires, 19 Iowa, 26; Goss v. Coblens, 43 Mo. 377; Page v. Defries, 7 B. & S. 137; Wilson v. Peverly, 2 N. H. 548; McKeon v. Citizens' R. Co., 42 Mo. 80; Haack v. Fearing, 4 Abb. N. S. (N. Y.) 297; Goodman v. Kennell, 3 C. & P. 167.

[2] Louisville R. Co. v. Faulkner, 2 Head (Tenn.), 65; How v. Canal Co., 5 Harr. (Del.) 245.

false imprisonment;[1] for a libel published by its servants;[2] for a nuisance committed by them;[3] for a conversion of the goods of another by them;[4] or for any act done by them within the scope of their authority; but the question of liability always depends upon the circumstance, whether or not the act was within the scope of the servants' authority, express or implied.

SEC. 516. **Liability to indictment.** — A corporation is liable criminally for the acts of its agents, when the acts done are within the scope of the authority delegated to the agent. Thus, where the servants or agents of a corporation, in the operations of its works, pollute the waters of a stream,[5] or obstruct a highway,[6] or commit any nuisance that is a legitimate result of doing that which they were employed to do, the corporation, as well as the servants or agents, are liable to indictment therefor.[7] So a corporation may be indicted for an assault committed by its servants,[8] or a libel published by its orders,[9] or for any non-feasance, by the omission by its servants to perform a duty imposed upon it by statute, or by the common law,[10] or for a misfeasance by doing that which they are intrusted to do, contrary to statute, or in violation of the common law.[11] Thus, a turnpike company is liable to indictment for permitting its turnpike to be and remain out of order.[12] So a railroad company authorized to obstruct a highway in a certain mode is liable to indictment for obstructing it in any other mode.[13] And, generally, when the act done is made an offense by statute or the common law, and is within the scope of the powers conferred upon its officer, agent or servant doing it, the corporation is criminally liable therefor.

[1] Owsley v. Montgomery, etc., R. Co., 37 Ala. 560.

[2] Aldrich v. Press Printing Co., 9 Minn. 133.

[3] Terre Haute Gas Co. v. Teel, 20 Ind. 131; Taylor v. Boston Water Power Co., 12 Gray (Mass.), 415.

[4] Beach v. Fulton Bank, 7 Cow. (N. Y.) 485.

[5] Rex v. Medly, 6 C. & P. 437; Regina v. Stephens, L. R., 1 Q. B. 701.

[6] Regina v. Sheffield Gas Co.; Louisville, etc., R. Co. v. State, 3 Head (Tenn.), 523; State v. Morris & Essex R. Co., 23 N. J. 360.

[7] Rex v. Medly, *ante;* Regina v. Stephens, *ante.*

[8] Eastern Counties R. Co. v. Broom, 6 Exch. 314.

[9] Whitfield v. S. E. Railway Co., E. B. & E. 115.

[10] Regina v. Birmingham R. Co., 9 C. & P. 469; Com. v. Nashua & Lowell R. Co., 2 Gray (Mass.), 54; Regina v. G. N. of England Railway Co., 9 Q. B. 315.

[11] State v. Vt. Central R. Co., 27 Vt. 103; Regina v. North of England R. Co., 9 Q. B. 315; Com. v. New Bedford Bridge Co., 2 Gray (Mass.), 339.

[12] Red River Turnpike Co. v. State, 1 Sneed (Tenn.), 474, Waterford, etc., Turnpike Co. v. People, 9 Barb. (N. Y.) 161.

[13] Regina v. Scott, 3 Q. B. 543. See also § 549 and notes.

INDEX.

REFERS TO SECTIONS.

A.

ACCEPTANCE (see PRIVATE CORPORATIONS): SEC.

of a grant of incorporation 23
mode of acceptance 24
formal acceptance not necessary ..... n. 3, 24
unconditional 26
under general laws 27
may be inferred ..... n. 1, 25, n. 2, 27
the doctrine has no application to municipal corporations, 23, n. 4, 30
of charter of private corporation constitutes a contract which the state cannot violate 32
corporate act need not be 32

ACCOMMODATIONS:

duty of railroad companies to furnish reasonable and safe 500

ACKNOWLEDGMENT:

corporate instruments, by whom made 257

AGENTS (see OFFICERS; DIRECTORS; CORPORATIONS; TORTS; NEGLIGENCE; CONTRACTS):

directors as 143
authority of 145
ratification of acts as 147
implied when 148, 150
effect of 150
when personally liable for acts as 152, 153, 190
when not, for acts of other agents 193
compensation of 196
meetings 164, 207
corporate liability for negligence of, generally 480
wrongful acts of 480
illustration of doctrine of liability in such cases 481
maxim applicable to 482

AGENTS — (Continued). SEC.
corporate liability, illustration of ... 483–487
test of liability for ... 487
matters to be considered in determining ... 489
as contractors ... 490
in case of contractees ... 490
nuisances ... 491
liability, the same care as natural persons ... 492
for, in relation to engines, cars, track, etc ... 494, 495
instances of negligence when the corporation was held liable, 496
neglect of duty in case of ... 497
in case of injuries received in getting upon a train ... 499
as affected by the duty of passengers ... 501
willful wrongs, when ... 503
negligence of, in constructing works ... 505
repairing ... 505
nuisances ... 505
corporate, necessity for ... 165
general law of agency applicable to ... 165
officers are ... 165
limitations on authority of ... 166
directors as ... 167
appointment of ... 168
may be appointed without the use of the corporate seal ... 169
what is within the scope of their authority ... 170
powers implied by virtue of office ... 171, 174
where he exceeds his authority in the execution of contracts ... 174
limitations of authority as to time ... 175
mode of executing contracts by ... 176
contracts *ultra vires*, executed by ... 179, 180, 229–241
parties dealing with, must take notice of authority ... 181, 182
delegation of authority by ... 183
powers expressly conferred upon ... 184
ratification of acts of ... 185–187
personal liability of ... 188
where there is no principal ... 191
in case of no authority ... 192–194
for violation of duties ... 195
compensation of ... 196
frauds of ... 197
proof of ... 198
corporate liability for negligence of, in relation to engines and machinery ... 494, 506
application of maxim, *sic utere tuo ut alienum non lædas*, to ... 507
negligence of, as affected by the doctrine of contributory negligence ... 508
consequential injury by ... 509

AGENTS — (Continued). SEC.
negligence of, in running trains 510
in case of trespassers upon the track of railroads 511
in case of injury to children 512
animals 513
of, for various torts 514

AMALGAMATION (see CONSOLIDATION):
meaning of 384
English doctrine relating to 385
doctrine of, in this country 386
must be authorized by statute 387
when authority of, is conferred after the creation of the corporation 388, 389
result sometimes effected by the exercise of the right of eminent domain 390, 391
when authority to, exists at the time of the creation of a corporation, 392
rule as to requisite concurrence where no statutory authority is given 393
the rights and powers of the new organization in case of 394
doctrine as to creditors in case of 395
of corporations organized in different states 396

ANIMALS (see NEGLIGENCE ; TORTS):
injuries to, by negligence of corporations 513
care of corporations in ct to 514

B.

BANKS:
national, taxation of, under the act for 478

BANKING:
insurance companies cannot engage in 47
(See CORPORATIONS ; CONTRACTS.)

BILLS AND NOTES (see CORPORATE CONTRACTS):
corporate, negotiable quality of 227

BRIDGE:
charter for, when it does not prevent the legislature from granting another charter for another bridge, across the same river 38
case of Charles River Bridge 38
Warren Bridge 38
Binghamton Bridge ..... n. 2, 38

BY-LAWS:
general principles relating to 261
requisites of, and construction 262

BY-LAWS — (Continued). SEC.
must be reasonable ... 263
not be oppressive ... 263
contrary to the laws of the state ... 263
in restraint of trade, void ... 264
when adopted by the corporate body ... 265
directors ... 266
distinction between ... 257
void, when contrary to the general laws of the land ... 268
matters that may be regulated by ... 269, 270
how they are made ... 272
repeal of ... 273
functions of ... 274
effect on third persons ... 274
regulating the transfer of corporate stock ... 275-278
providing for a lien on stock ... 277, 278
notice conferred by ... 279
cannot affect rights secured by the incorporating instruments ... 280

C.

CARS (see RAILROAD CORPORATIONS; NEGLIGENCE):
railroad, liability of, for defects in ... 494
for negligence in construction of ... 494, 495
instance where held liable for ... 496

CASHIER (see OFFICERS):
powers of, implied ... notes, 170

CERTIFICATES (see STOCK; STOCKHOLDERS; SHARES):
of shares, nature of ... 56a
income on ... 96
character and quality of ... 114
transfer, how made ... 118
corporation may be compelled to transfer on books ... 125
right of action against corporation for failure to transfer ... 127

CHARTERS:
of private corporations a contract irrevocable ... 3
of public corporations revocable by the state ... 3
not necessarily public because of public interest ... n. 2, 3
repeal of, by the legislature under statutory provisions ... 33, 44

CHILDREN (see NEGLIGENCE):
corporate liability for injuries to, by the negligence of agents ... 512
doctrine as to contributory negligence of ... 512
distinction between action by the parent and action for the child ... notes, 512

CITIZENS (see SUITS AT LAW): SEC.
corporations not included in the constitutional provision of the U. S. conferring upon citizens of each state certain privileges and immunities 330–334
corporations are, under the provisions of the constitution of the U. S. relating to judicial powers 335–337
corporations are, under the provisions of the U.S. judiciary acts, 338–341
under the act of congress for the removal of causes from the state to the federal courts 342–345

COMMON SEAL (see SEAL; CORPORATE SEAL):
incident of a corporation 247
former doctrine in relation to 248
origin of law relating to 249
present doctrine relating to 251
what is 254, 255
by whom it should be affixed 256, 257
relating to agents 258
as evidence 260

COMPENSATION (see EMINENT DOMAIN):
for land taken under right of eminent domain 407, 408
mode of proceeding to determine 409
estimating damages 409
elements which may be considered 410

CONDITIONAL SUBSCRIPTIONS (see STOCK; STOCKHOLDERS):
condition in constating instruments 67
conditions in writing 70
may be waived 72
when void 73, 74

CONDITIONS (see STOCK; STOCKHOLDERS):
to subscriptions provided by the constating instruments 67
provided by the contract of subscription 70
may be waived 72
of the contract of subscription, when void 73
which avoid the whole contract 74

CONSOLIDATION (see AMALGAMATION):
meaning of, same as amalgamation in England 384
English doctrine relating to 385
doctrine of, in this country 386
must be authorized by statute 387
where authority is conferred after the creation of the corporation 388, 389
in the absence of legislative authority the same result is sometimes accomplished by the exercise of the right of eminent domain, 390, 391
when the right exists at the time of the creation of the corporation, 393

CONSOLIDATION — (Continued). SEC.
rule as to requisite concurrence in the absence of statutory provisions therefor ... 393
the powers and privileges of the consolidated corporation ... 394
rights of creditors of the consolidating corporations in case of ... 395
of companies organized in different states ... 396
CONSTATING INSTRUMENTS:
use and meaning of the term ... n. 3, 28
CONSTRUCTION (see CONTRACTS):
of corporate power to make contracts ... 219
incidental ... 221, 222
scope of authority ... 224
CONTRACTS (see CORPORATE CONTRACTS):
the power to make, a corporate incident ... 219
mode of executing the power ... 220
executed by agents ... 220
when necessary to be in writing ... 220
generally not necessary to be in writing ... notes, 220
construction of instruments relating to ... 221, 222
relating to bailments ... 223
depends upon its character ... 223
what would not be within the scope of the agent's authority in relation to ... 224, 225
place of making, by the corporation ... 225
by the directors ... 226
corporate bills and notes ... 227
bonds, negotiable quality of ... 227
coupons, their incidents and qualities ... 228
ultra vires ... 229–241
doctrine of ... 229
different senses in which the term is used ... 230
are all such contracts void ... 231, 233
distinction in case of, between executed and unexecuted contracts ... 233, 234
form of action in case of ... 237
doctrine of, applied to agents ... 238
in case of negotiable instruments ... 239
as to implied powers ... 240
conclusion as to ... 241
CONTRACTORS (see CONTRACTS; NEGLIGENCE; TORTS; AGENTS):
when liable for negligence ... 480
CONTRACTEES:
liability for negligence, etc ... 490
CONTRIBUTORY NEGLIGENCE (see NEGLIGENCE; TORTS):
effect of, in case of negligence ... 508

CONTRIBUTORY NEGLIGENCE — (Continued). SEC.
question of, usually for the jury 508
in case of fire, originated by negligence 508
in case of negligence of railroad companies, by which a fire is started 302–311

CORPORATIONS (see PRIVATE CORPORATIONS ; PUBLIC CORPORATIONS ; RAILROAD CORPORATIONS ; TORTS ; DAMAGES):
how defined 1
various kinds 2, 3
distinction between public and private 3
quasi corporations 4
origin and early history of private corporations 5
variety and importance of modern corporations for pecuniary gain, 5
creation of, an act of sovereignty 6
by royal charter 6
act of parliament 8
by prescription, and at common law 9
how created in this country 10
power of congress to create 11
legislatures to create 12
general statutes of incorporation 13
advantage of 13
of the general power to delegate authority to create 15
of territorial legislatures 16
by prescription in this country 17
foreign joint-stock companies may be 18
the name of 19
the location of 20
words of, in royal grants 21
common-law incidents of 22
acceptance of the grant of incorporation 23
mode of acceptance of grant 24
acceptance must be unconditional 26
under general laws 28
implied powers of, under general or special statutes 45
powers conferred or limited by statutes 46
powers limited to those conferred by charter ..... n. 3, 46
powers limited to the objects of the grant 47
insurance corporations cannot engage in banking 47
confined to business for which they were created 47
distinction between, and partnerships 48
composition of private 51
private, government may constitute member of 52
admission and election of members and officers of 53
disfranchisement and expulsion of members of 54
quasi, what are 55

CORPORATIONS — (Continued). SEC.
private, membership of, under general statutes ... 56
management of, by directors ... 57
shareholders are members of ... 58
right to vote ... 58
by proxy ... 61
must take notice of what ... 62
what they are presumed to know ... 62
personal liabilities of, under statutes ... 63
general liabilities of, on subscriptions ... 66
under conditions in the constating instruments ... 67
conditional subscriptions ... 70
conditions, waiver of ... 72
when void ... 73
subscriptions, when conditions avoid the whole contract, 74, 75
in contemplation of incorporation ... 77
fraud in relation to ... 78
rules depend upon statutes or constating instruments 79
defense to ... 80
assessment and calls for ... 82
stock, forfeiture of ... 85
assessment of ... 86
notices of, assessments of ... 90
sufficiency of ... 91
dividends, right to ... 92
may sue for ... 95
in trust ... 96
right to sell and assign shares ... 98
liability of assignees to corporation ... 101
purchasers from trustees ... 102
stockholders, right to vote ... 105
liability in equity to creditors ... 129
right of access to books ... 106
action against corporation ... 127
preferred stock, rights of holders of ... 108
when it can be issued ... 108
dividends on ... 107
scrip and preliminary subscriptions ... 109
stock of, defined ... 110
issuing certificates of shares of ... 111
fraud in ... 112, 113
shares and income ... 114
character and quality of ... 114
certificates ... 117
transfer of ... 118
how made ... 118

CORPORATIONS — (Continued). SEC.
stock of, refusal of corporation to transfer 120
liens of corporation on 122
corporation may be compelled to transfer 125
when subject to attachment in hands of assignee 126
over-issued and watered stock 130
when liable for torts 283
general principles, relating to 281
may do, or cause to be done, wrongful acts 285
frauds of 286
frauds of agents, for which they are liable 286, 288, 290
when the corporation is the occasion of a loss 291
enjoying the benefit of a contract secured by fraud 292
right to repudiate a contract for, limited to original party 294
ratification of contract, secured by fraud of agent 295
liability for other wrongs of agents 297
assault and battery of agents 298
trespass to property 300
in case of negligence of agents 302
limitation of, in certain cases 303–307
in case of successive negligence, when 307
complications arising from 307
torts, damages generally 311–324
exemplary 313
exemplary damages not applicable to corporations 315
damages, extreme doctrine of 316
for gross negligence, damages 317
not consistently applicable to corporations 318
for exemplary, recent examination of the doctrine 319
conflict 322
damages resulting in death 323
elements of 324
what is competent to show 324
foreign, not citizens 330
private, causes for which they may be dissolved 436
which constitute a dissolution of 436
dissolution of, reserved power in the legislature to dissolve .. 437, 438
where the reserved power is subject to a condition 439
on expiration of the time limited for their continuance 440
for neglect or abuse of powers 441, 442
mode of proceeding in such cases 443, 444
dissolution by the voluntary acts of its members 445
where the majority may surrender its franchise 446
under statutes providing for the winding up of corporations. 447, 448
by the death of all of its members 449

CORPORATIONS — (Continued). SEC.
effect of, generally at common law 450
effect of, upon creditors 451
under proceedings for forfeiture, by *quo warranto* 452
under proceedings not the subject of collateral inquiry 452
under certain circumstances may be inquired into collaterally 453
liability for negligence 480
illustration of the doctrine of 481
maxim, relating to 482
cases relating to 483–486
real test of 487
implied powers of agents in such cases 488
matters to be considered in determining 488
whether the act is within the scope of agent's authority, 488
of contractors, stated 490
of contractees, when 490
in case of nuisance 491
bound to same degree of care as natural persons 492
not insurers against all casualties 493
railroad, duty required in relation to engines, cars, track, etc.... 494
instances where held liable for negligence 496
duty of 497
when liabilities for injury received in getting upon the train, 499
duty to furnish reasonable accommodations 500
passengers 501, 502
liability for wrongs of agents generally 503
railroad, liability for delay in running trains 504
negligence in constructing road 505
repairing 505
nuisances 505
defects in engines and machinery 506
application of maxim *sic utere tuo ut alienum non lœdas* to.... 507
liability, in case of contributory negligence 508
for consequential damages 509
damages in the running of trains 510
in case of injuries to trespassers upon tracks 511
children 512
animals 513
other cases 515

CORPORATE MEETING (see DIRECTORS) :
mode by which the will of the corporation is expressed 199
members should have an opportunity to be present 199
right to a voice on all questions of corporate policy 199

CORPORATE MEETING — (Continued). SEC.
members' will, the will of the corporation 199
doctrine applies to by-laws 199
when they may prescribe the time and place of meeting 199
no one bound without consent 199
notice of 200
when required to be personally given 200
not required when time and place of meeting are provided in the constating instruments 200
by-laws relating to, void when repugnant to the fundamental law 200
absence of members from home no excuse for failure to give, n. 4, 200
but mental imbecility might be ..... n. 4, 200
may not be required when they are fixed by usage ..... n. 5, 200
common-law doctrine relating to 201
in the absence of any provision as to the length of notice, it should be reasonable 201
not required where the meetings are stated and general, n. 5, 201
should state the time and place of 201
waiver of 202
presumptions ..... n. 2, 202
presumed by attendance of all 202
required where business of an extraordinary character is to be done 204
validity of acts depend upon 202
distinction between general and special as to 204
adjourned meetings 203
incidental common-law right 203
general and special 204
where business of an extraordinary character is to be done 204
special meetings, notice of, given at general meetings 204
majority present may express corporate will 205
rights of stockholders under statutes cannot be divested by by-laws, resolutions or contracts 205
right of the trustee or pledgee of stock to vote at 206
of directors 207
if unusual, notice must be given 207
notice usually prescribed by the by-laws or constating instruments 207
acts at an irregular meeting may be valid 208
can they only act as a board ? 209
what constitutes a quorum 211
majority of the quorum may bind the corporation 211, 212
if a quorum are present, a majority of that quorum may act .. 213

CORPORATE MEETING — (Continued). SEC.
of directors, general powers of, at meetings 214
mode of expressing their assent..... 215
cannot be held outside the state creating them..... 216
directors may 215, 216
equity jurisdiction of the courts to enjoin corporate elections.... 218

CORPORATE PROPERTY (see CORPORATIONS ; PRIVATE CORPORATIONS ; TAXATION):
subject to taxation 467–479
of railroads, difficult of taxation..... 469
taxation of, statutes regulating 470, 471
what is subject to taxation..... 472
exempt..... 472
contracts exempting from taxation sustained 473
against public policy..... 473
taxation, doctrine exempting from, will not be extended..... 474
exemption of U. S. bonds from 477
under the national banking law 478

CORPORATE SEAL (see SEAL ; CONTRACTS):
definition of, history..... 244
history of private seals..... 245
how they came into use..... 246
incident of a corporation..... 247
former doctrine as to..... 248
origin of the law relating to..... 249
present doctrine in reference to..... 251
what is..... 254, 255
by whom it should be affixed..... 256
where an acknowledgment is required..... 257
doctrine of, in relation to agents..... 258
authority may be conferred without..... 259
as evidence..... 260

COUPONS (see CONTRACTS):
their incidents and qualities..... 288
may be detached from the bonds..... 288
may be transferred like negotiable instruments..... 288
are secured by the mortgage given to secure the bond..... 288
statute of limitations in reference to..... 288
do not lose their validity if bonds are paid off before their maturity.. 288

CREDITORS:
rights in equity for misappropriation of the corporate funds..... 365
may pursue corporate funds into the hands of any person not a *bona fide* holder..... 365

CREDITORS — (Continued). SEC.
dividends to stockholders cannot defeat rights of 365
division of proceeds among stockholders on sale of stock cannot defeat rights of 365
property of the corporation held in trust for their payment 365
in equity, may reach unpaid subscriptions to satisfy claims 366

D.

DAMAGES (see TORTS; CORPORATIONS; FRAUD; CONTRACTS; NEGLIGENCE):
generally in cases of torts 311–324
exemplary 313–322
whether applicable to private corporations 315, 316
consideration of the doctrine 315, 316
extreme cases 316
for gross negligence 317
inconsistency of, in its application to corporations 317
recent examination of the doctrine of 318–322
conflict growing out of 322
for injury resulting in death 323
elements in case of death 324
in case of the exercise of the right of eminent domain 409
mode of estimating in case of 409
elements of 410
in case of lands not taken but damaged 411
DEATH (see TORTS; DAMAGES; NEGLIGENCE):
damages for injury resulting in 323
elements of damages in case of 324
exemplary damages not generally allowable, what it is competent to show 324
dissolution of a corporation by death of all its members 449
DEFINITIONS (see CORPORATIONS):
of corporations 1
various kinds of corporations 2
constating instruments 28
DESCRIPTION (see DEFINITIONS; CORPORATIONS):
of corporations 1
of various kinds of corporations 2
DISTINCTION (see CORPORATIONS):
between public and private corporations 3
DIRECTORS (see CORPORATIONS; AGENTS; PRIVATE CORPORATIONS; CORPORATE MEETINGS):
management of corporations by 57

DIRECTORS — (Continued). SEC.
election of 131
powers of, provided by the fundamental laws..... 133, 134, 136
implied powers of..... 137
acts not within the scope of their powers..... 138
powers, when they depend upon interpretation of instruments... 140
corporate powers not conferred upon, remain in the corporate body, 141
cannot change the character and objects of the corporation 142
as agents..... 143
doctrine in England as to authority of directors..... 145
delegation of authority of..... 146
ratification of acts of..... 147, 148
when implied..... 147, 148
implied from knowledge, when..... 149
effect of..... 150
under the national banking law..... 151
personal liability of..... 152, 153
fiduciary character of 154, 155
cannot manage affairs for their personal benefit..... 156
contracts with corporations viewed with suspicion 157, 158
when not personally liable for frauds of other agents..... 158
generally liable where they act without authority..... 159
most effectual remedy in such cases is by injunction .....n. 1, 159
liability of, as partners, in certain cases..... 160
de facto, acts of, cannot be collaterally impeached..... 161
compensation of 161
cannot be increased by themselves 162
meetings of..... 163
cannot benefit themselves to the prejudice of creditors..... n. 3, 154
in case of the insolvency of the corporation cannot set off against a claim due the corporation, an amount due from the corporation to him.....n. 1, 156
cannot gain, by taking advantage of their position to the prejudice of the corporation, stockholders, or creditors, notes, 157, notes 158
deal with the corporation for his own benefit, n. 1, 157, 158, and notes, 364
as agents..... 167
meetings of 207
acts of an irregular meeting of, may be valid..... 208
can they act only as a board?..... 209
what constitutes a quorum at a meeting..... 211
their powers..... 214
the mode of expressing their assent..... 215

DIRECTORS — (Continued). SEC.
may hold meetings outside the state of their creation 216
place of contracting by 226
rights and liabilities of 359
remedies against 359
trustees of bondholders and creditors 359
corporation, right to services of 359
opinion of 359
injunction to restrain unlawful acts of 370
in favor of shareholders 371
DISSOLUTION (see QUO WARRANTO):
causes for which corporations may be dissolved 436
which constitute 436
reserve power in the legislature to dissolve 437, 438
where it is subject to a condition 439
on the expiration of the time limited for its continuance 440
for neglect or abuse of powers 441, 442
mode of proceeding in such cases 443, 444
by the voluntary act of members 445
by the voluntary surrender of the franchise 446
under statutes for winding up of corporations 447, 448
by the death of all the members 439
effect of, at common law 450
upon creditors 451
for forfeiture, not the subject of collateral inquiry 452
when the corporate existence may be inquired into collaterally ... 453
DOMAIN (see EMINENT DOMAIN):
eminent, what is 398
how right can be enjoyed 399
authority of legislature to grant 400
what public uses justify it 401
who to determine the question of public use 402
limit of the right of 403
extent of right 404, 405
amount or quantity of land to be taken 404
where, under general laws, a corporation takes more land than required 406
compensation in case of 407, 408
damages, mode of estimating 409
elements of 410
where lands are damaged but not taken 411

E.

ELECTIONS (see CORPORATE MEETINGS; STOCK):
members' right to vote at 58-61
of members and corporate officers 53

ELECTIONS — (Continued). SEC.
members' right to vote at ... 199
how the will of the corporation is expressed at ... 199
notice of ... 200
common-law doctrine in reference to ... 201
rights of pledgee and pledgor at ... 206
of corporation cannot be held outside the state where it is created, 216
jurisdiction of courts of equity to restrain ... 218
EMINENT DOMAIN (see DOMAIN):
what it is, right of ... 398
how it can be enjoyed ... 399
authority to grant rights of, vested in the legislature ... 400
what are public uses which justify the exercise of it ... 401
who is to determine the question of public use ... 402
limit of the right of ... 403
who to determine in reference to the extent of the right ... 404
amount or quantity to be taken ... 404
where the corporation takes more than is required ... 404, 406
compensation in case of exercising ... 407, 408
damages ... 409
mode of estimating ... 409
elements of ... 410
lands injured by, but not taken ... 411
EQUITY (see SUITS IN EQUITY; INJUNCTION):
suits in, by and against corporations ... 357
remedies of various parties in ... 358
in, against directors ... 359–362
stockholders' rights in, for misappropriation of corporate funds ... 365
doctrine as to proper parties in suits in ... 367–369
where an injunction will be granted in ... 370
not be granted ... 371
suits in, for specific performance ... 372
ESTOPPEL:
doctrine of, in case of party dealing with a corporation ... 348
when the corporation denies its corporate existence ... 349
corporate records an ... 354, 355
EVIDENCE:
of incorporation ... 29
in *quo warranto* ... 421
in *mandamus* ... 457, 465, 466
estoppel, in case of a party dealing with corporations ... 348
corporation denying its existence ... 349
corporate records as ... 354, 355
EXECUTION (see PROCESS):
common-law doctrine in reference to ... 373

EXECUTION — (Continued). SEC.
where the state provides for a sale of the corporate franchise on.. 374
subjection of stocks to, doctrine..... 375
statutory provisions for the garnishment of interests of stockholders..... 376
where returned unsatisfied — appointment of a receiver, when.... 377
where returned unsatisfied, creditor's right to receive..... 378, 379
unsatisfied, rights and duties of a receiver..... 381

EXEMPTION:
of corporate property from taxation..... 472
statutes sustained by the current of legal decisions..... 473
compensation in lieu of corporate taxation 473
contract for, apparently against public policy..... 473
many respectable authorities and protests against the doctrine of. 473
dissenting opinions of the supreme court of the U. S. against the policy..... 473
doctrine sustaining in case of corporate contracts, not likely to be extended..... 474
recent decision of the supreme court of the U. S. relating to. 474, 475
of U. S. stocks, etc..... 476
under the national banking law..... 477
provisions of the banking act of U. S..... 477
decisions relating to, under U. S. banking act..... 477

F

FIDUCIARY CHARACTER (see DIRECTORS ; SUITS IN EQUITY) :
of directors..... 154

FORFEITURE (see STOCK ; STOCKHOLDERS ; MEMBERS) :
of corporate rights, not usually the subject of collateral inquiry.. 452, 453
of stock in corporations..... 85

FRAUD (see STOCKHOLDERS ; DIRECTORS ; SUITS IN EQUITY ; TORTS ; NEGLIGENCE) :
in relation to subscriptions..... 78
in issuing stock certificates..... 95
liability of corporations for..... 281–283
for frauds of agents..... 286
particular acts of fraud..... 290
loss occasioned by..... 291
where they enjoy the benefit of contracts secured by..... 292
right to repudiate contract for, limited to original parties.... 294
ratification of contract secured by..... 295

G.

GROSS NEGLIGENCE (see TORTS ; NEGLIGENCE): SEC.
which authorizes exemplary damages 317

I.

INJUNCTION (see SUITS IN EQUITY ; EQUITY) :
an effectual remedy to restrain the unlawful acts of agents.. n. 1, 159
shareholders' right to, against directors 360
as a remedy for stockholders, to prevent directors from divesting the corporation of its funds 364
to prevent a violation of the corporate franchise 364
to act *ultra vires* 366
where it will be granted 370
not be granted 371

INJURY (see NEGLIGENCE ; FRAUD ; TORTS) :
by agent, liability of corporations for 480–516

INSURANCE :
companies cannot engage in banking 47
are limited to business for which they were incorporated 47

J.

JUDGMENT :
in proceedings by *quo warranto* 422

JUDGMENT CREDITOR (see RECEIVER ; EXECUTION) :
his right to a receiver 378–381

L.

LAW (see SUITS AT LAW) :
suits at 325–356

LEGISLATURE (see CORPORATIONS ; PRIVATE CORPORATIONS ; CHARTER) :
power of, to regulate charges of railroads 31–39
reservation of power in 39
rights to resume grants, based upon abuse of franchise 40
power of, cannot be exhausted 41
general statutes, reserving power of 42
power of, to amend charters 43
to repeal charters 44
reserved power in, to dissolve corporations 437
where it is subject to a condition 439

LEGISLATIVE CONTROL (see PRIVATE CORPORATIONS) :
over public corporations 28
private 29

LEGISLATIVE CONTROL — (Continued). SEC.
power of legislature to regulate charges of railroad and rights of public interest 31–39

LIENS (see LIENS ON CORPORATE PROPERTY ; PRIORITY OF LIENS) :
of the corporation on stock 122
of corporate mortgages and bonds secured thereby 424
on corporate property, can they be given on property thereafter to be acquired ?..... 425
what may be conveyed by corporate mortgages..... 426
rolling stock, how considered as subject to 427
of mechanics' and constructors'..... 429
priority between a mortgage and a mechanic's or contractor's, 432–435
provisions of statutes in reference to..... 424, 425
as an expedient for raising money..... 424
practice of issuing preferred stock in lieu of 424
corporations may mortgage property thereafter to be acquired.... 425
by mortgage, what liens created by..... 426
on rolling stock, character of, and how liens created on 427, 428

M.

MANAGEMENT (see MEMBERS; CORPORATE MEETINGS):
by directors 57

MANDAMUS (see SUITS AT LAW; WRIT; REMEDY):
the writ and its functions..... 454
in this country..... 455
when issued..... 456
in the discretion of the court 456
practice and proceedings in case of..... 457
office of..... 458
to compel the performance of duty..... 458
corporations and officers to..... 458
when proceedings have been commenced in equity for the same purpose 458
will not issue where the duty cannot be performed..... 458
the party will be thereby involved in doubtful litigation, 458
to control a discretion 458
instances where it would be a proper remedy..... 458
concurrence of facts necessary to authorize it..... 459
when it will not be issued..... 460
resemblance and distinction between, and injunction..... 461
the right arm of law..... 461
against private corporations and officers..... 462
to compel the keeping of a register of the names of stockholders.. 462
the admission of a director..... 462

MANDAMUS — (Continued). SEC.
to compel the admission of members to privileges of 462
the performance of any specific duty 462
corporations may invoke its aid 463
to compel supervisors to subscribe for stock in a railroad corporation 463
to issue county bonds, as required by law 463
the return of bonds unlawfully issued 463
commissioners of lands to issue certificates 463
county officers to levy a tax 463
inspection or delivery of corporate books or papers 464
will not be granted except for beneficial purposes 464
against an officer, no excuse that he purchased the books 464
as a remedy against railroad corporations 465
to compel railroad corporations to transport passengers to a particular terminus 465
in various cases 465
writ, to whom it should be directed 466
common-law doctrine as to service 466
services regulated by statute 466

MAXIMS:
lex semper debet remedium 325
ubi jus ibi remedium 325
executio est finis et fructus legis 373
qui facit per alium facit per se 482
applicable to corporate agent 482
illustration of 481
sic utere tuo ut alienum non lædas 507
damnum absque injuria 507

MEMBERSHIP (see STOCK; STOCKHOLDERS; MEETINGS):
under general statutes 57

MECHANICS (see LIENS):
and constructors' liens 429, 430
priority between, and mortgages 431

MEETINGS (see CORPORATE MEETINGS):
corporate, how will of the members of, is expressed 199
notice of 200
common-law doctrine relating to 201
waiver of 202
presumption of 202
adjourned 203
general and special 204
majority at, may express the corporate will 205
right of pledgee or trustee to vote at 206

MEETINGS — (Continued). SEC.
of directors 207
irregular, may be valid 208
can they only act as a board? 209, 210
what constitutes a quorum at 211, 212, 213
powers of directors at 214
mode of expressing their assent at 215
corporate cannot be held outside the state where created 216
of directors may be held outside the state where the corporation was created 216
jurisdiction of courts of equity to restrain 217

MEMBERS (see STOCKHOLDERS; CORPORATIONS; PRIVATE CORPORATIONS):
under general statutes 56
stockholders in joint-stock corporations are 58
right to vote 58
by proxy 62
the state may constitute a member 52
admission and election of members and officers 53
disfranchisement and expulsion of 54

MORTAGE (see LIENS):
corporate to secure bonds 424
on property thereafter to be acquired 425
what may be conveyed by 426
how rolling stock is to be treated in reference to 427
priority between, and mechanics and constructors 229

MUNICIPAL SUBSCRIPTIONS (see TAXATION):
in aid of corporate enterprises .....

N.

NAME (see CORPORATIONS):
corporations should have 19

NEGLIGENCE (see TORTS; PRIVATE CORPORATIONS; RAILROAD CORPORATIONS):
corporate liability for 480
wrongful acts of 480
corporate liability for agents' assault 481
battery 481
maxim *qui facit per alium facit per se* considered 482
liability of principal for acts of, within the scope of agent's authority 482
maxim illustrated 483–486
real test of liability for 487
implied powers of agent in case of 488

NEGLIGENCE — (Continued). SEC.
not necessary that the agent should have acted under directions.. 488
liability for, if the agent acted within the scope of the authority conferred..... 488
matters to be considered in case of, whether the act is within the scope of agent's authority..... 489
liability of contractors and contractees in case of..... 490
corporate liability in case of a nuisance, when liable..... 491
corporations bound to same care as natural persons..... 492
railroad corporations not insurers against all casualties..... 493
care required of railroad corporations to exempt from negligence on account of injuries from defects in engines, cars, track, etc. 495
are bound to keep stations and premises in good repair..... 496
instances where the corporation was held liable..... 497
duty of railroad corporations, in order to avoid liability for..... 497
duty in relation to the stopping of trains..... 499
to allow a reasonable time for passengers to leave cars at stations..... 499
railroad liability, for injuries received in getting on train..... 499
in not affording reasonable accommodations..... 500
in case of contributory negligence..... 500
duty to passengers..... 501
implied obligations of..... 501
liability for willful wrongs of agents..... 503
for insults inflicted..... 503
delay in running trains..... 504
in constructing or repairing road..... 505
nuisances..... 505
defects of engines and machinery by which injury is sustained..... 506
application of the maxim, *sic utere tuo ut alienum non lædas*, in case of..... 507
contributory, cases relating to..... 508
consequential damages resulting from..... 509
in railroad corporations, in the running of the trains..... 510
in case of injury to persons trespassing upon railroad tracks..... 511
children..... 512
animals..... 513
in various other cases..... 515

NOTICE (see CORPORATE MEETINGS):
of meetings to be given members..... 200
when required to be given personally..... 200
note not required, when the time and place of, is fixed by the constating instruments..... 200
by-laws void, when repugnant to the fundamental law..... 200

NOTICE — (Continued). SEC.
absence of members from home no excuse of notice ..... n. 1, 200
common-law doctrine relating to 201
in absence of regulation by the constating instruments as to time, it should be reasonable 201
not required where the meetings are stated and general ..... n. 5, 201
should state the time and place of 201
waiver of 202
when presumed ..... n. 2, 202
presumed by attendance of all 202
conferred by by-laws 279
distinction between those made by the corporation and those made by directors 279
NON-USER (see QUO WARRANTO; DISSOLUTION):
as a ground of forfeiture of corporate rights 419

O.

OFFICERS (see AGENTS; DIRECTORS; CORPORATIONS; PRIVATE CORPORATIONS):
implied powers by virtue of the office 170
of a president 170
cashier 170
contracts of, *ultra vires*, when void 179, 180
distinction between executed and unexecuted contracts in this respect 174

P.

PARTIES:
to a suit at law 345
PARTNERSHIPS:
distinction between, and corporate associations 48
PARTNERS:
each generally liable for partnership obligations 48
are agents for the partnership 48
distinction between, and corporators 48
PASSENGERS (see NEGLIGENCE):
duty of 501
PERPETUAL SUCCESSION (see CORPORATIONS):
incident to corporations 50-53
not strictly immortal 50
duration generally limited 50
continuance of legal identity 51
benefits of 52
members may change but the corporate identity remains 53
advantages of, in various enterprises 53

PERSONAL LIABILITY (see STOCKHOLDERS; MEMBERS; AGENTS; DIRECTORS): SEC.
of stockholders under statutes ... 63
in equity to creditors ... 129
of directors, where there is want of good faith ... 152, 153
where there is abuse of discretion ... n. 1, 152
for permitting false statements ... 150
for want of diligence and prudence ... 153
where they purposely injure the interests of the corporation ... notes, 153
where they act without authority ... 153
for property of the corporation acquired to the prejudice of stockholders or creditors ... 154
for the proceeds of stock wrongfully sold, and received by them ... 154
to creditors, for dividends received by them ... notes, 154
for any fraudulent or wrongful appropriation of corporate funds or property ... 155
for giving away corporate funds or property ... 155
for disposing of the stock of the corporation at a less sum than fixed by the charter ... 155
or in a manner contrary to the provisions of the charter ... 155
where they disregard by-laws ... 155
where they manage the affairs of the corporation for their personal benefit ... 156
as trustees, for funds or property ... notes, 157
in case of misrepresentation of their authority ... 192

PLAINTIFF (see SUITS AT LAW; SUITS IN EQUITY; INJUNCTION; QUO WARRANTO; MANDAMUS):
in suits against the corporation, may be a member ... 367
may be a stockholder or creditor ... 367

PLEADINGS (see SUITS AT LAW; SUITS IN EQUITY; MANDAMUS):
in suits at law ... 347
in *quo warranto* ... 421
in *mandamus* ... 457

PRACTICE (see QUO WARRANTO; MANDAMUS):
in proceedings by *quo warranto* ... 421
mandamus ... 457

PRESIDENT (see OFFICERS; AGENTS):
powers of ... 170, and notes, 171

PRIORITY (see LIENS):
between mortgage and mechanics' and contractors' liens ... 229

PRIVATE CORPORATIONS (see CORPORATIONS; RAILROAD CORPORATIONS):
distinction between, and public ... 3, 35

PRIVATE CORPORATIONS — (Continued). SEC.
charter of, a contract ... 3
history of ... 5
variety and importance of modern ... 5
objects embraced in ... 5
nature and character of ... 30–48
distinction between, and public corporations ... 30
legislative control over, doctrine of ... 32
immunity of corporate contract does not exempt property of, from legislative control ... 33
power of legislature to regulate charges of railroads ... 34
grant of franchises to, does not prevent future grants ... 38
construction of charters of ... 38
charters of, reserved power to amend, alter or repeal ... 39, 42, 45
in case of mis-use or abuse of ... 40
cannot be exhausted ... 41
under general statutes ... 42
implied powers conferred by ... 45
powers conferred or limited by statutes ... 46
limited by the object of the grant ... 47
distinction between, and copartnership associations ... 48
composition of ... 51
government may constitute a member of ... 52
admission and election of members of ... 53
disfranchisement and expulsion of members of ... 54
membership of, under general statutes ... 56
management of, by directors ... 57
shareholders of, are members of ... 58
right to vote ... 58
by proxy ... 61
what they are presumed to know ... 62
personal liability of, under statutes ... 63
general liability of, on subscriptions ... 66
liability under the constating instruments ... 68
on conditional subscriptions ... 70
stockholders, conditional subscriptions, waiver of ... 72
when void ... 73
when the whole contract is void ... 74
subscriptions in contemplation of incorporation ... 77
fraud in relation to ... 78
as affected by statutes or constating instruments ... 79
defense to claim for ... 80
assessments and calls for ... 82
stock, forfeiture of ... 85

PRIVATE CORPORATIONS — (Continued). SEC.
stockholders, stock, assessments of ... 86
notice of assessments of ... 90
sufficiency of ... 91
dividends, right to ... 92
may sue for ... 95
stock in trust ... 96
right to sell and assign shares ... 98
liability of assignee to corporation ... 101
purchaser from trustee ... 102
right to vote ... 105
liability in equity to creditors ... 129
right to access to books ... 106
of action against the corporation ... 127
preferred stock, rights of holders of ... 107
when it can be issued ... 108
dividends on ... 108
scrip and preliminary subscriptions ... 109
stock of, defined ... 110
issuing certificates of shares of ... 111
fraud in ... 113
shares, and income of ... 114
character and quality of ... 114
transfer of ... 118
transfer refused by company ... 120
liens of corporation on ... 122
corporation may be compelled to transfer on the books ... 125
overissued and watered ... 130
liability for torts, when ... 281–285
frauds ... 286
of agents ... 288
particular acts of ... 290
where it is cause of injury ... 291
in case of fraudulent act of an agent, they accept the contract thereby secured ... 292, 486
torts, real test of ... 487, 488
of agents, implied powers of ... 488
matters to be considered in ... 488
whether the act is within the scope of authority ... 488
of contractors ... 489
nuisances ... 491
negligence ... 492
not insurers against all casualties ... 493
relating to engines, cars, etc ... 494

PRIVATE CORPORATIONS — (Continued). SEC.
liability for negligence in case of injury received in getting on and off a train 499
negligence, railroad, duty to furnish reasonable accommodations. 500
of passengers 501, 502
liability for wrongs generally 503
of railroads for delays 504
in construction of road 505
repairing of 505
nuisances 505
defects in engine and machinery 506
application of maxim *sic utere tuo*, etc., to case of 507
application of doctrine of contributory negligence in case of 508
for consequential damages 509
in running trains 510
liability in case of injury to trespassers upon the track 511
children 512
animals 513
in other cases 515

PROCESS (see SUITS AT LAW ; SUITS IN EQUITY ; INJUNCTION ; EXECUTION ; MANDAMUS) :
against corporations, general principles relating to 346

PROOF (see EVIDENCE ; BY-LAWS ; CORPORATE SEAL) :
of corporation 352
corporate records 354

PUBLIC CORPORATIONS :
distinction between, and private 3, 30
charter of, no contract with the state 3
legislative control of 31
instituted without consent of members 30
powers conferred upon, are not vested rights as against the state.. 31
laws which establish, are not contracts but ordinary acts of legislation 31

PUBLIC USE (see EMINENT DOMAIN) :
what is, in case of eminent domain 441
who to determine the question in case of the exercise of the right of eminent domain 442

Q.

QUASI CORPORATIONS (see CORPORATIONS) :
provisions in reference to 4
condition to exempt members 4

QUO WARRANTO (see DISSOLUTION) :
writ of, at common law 442

QUO WARRANTO — (Continued). SEC.
proceedings in the nature of 413
remedy regulated by constitutions and statutes 414
as a remedy against private corporations 415
for non-user and mis-user of the franchises 416
in case of unlawful usurpation of an office in a private corporation 417
possession and user of an office essential 418
on the ground of forfeiture 419
in case of the destruction of the objects of a corporation 420
pleadings and evidence 421
judgment in case of 422

R.

RAILROAD CORPORATIONS (see CORPORATIONS; TORTS; NEGLIGENCE; CONTRACTS; AGENTS):
negligence, general doctrine of liability for 480
of servants 480
illustration of doctrine 481
maxim relating to 482
illustration of 483–487
real test of liability for 487
implied powers of agents in case of 488
matters to be considered in determining liability for 489
of contractors 490
of contractees 490
liability for nuisances, when 491
bound to same degree of care as natural persons 492
degree of care required of them 492
not insurers against all casualties 493
care required of them, relating to engines, cars, tracks, etc 494
instances of negligence, where held liable 495
duty of 496
when liable for injuries in getting on the train of 499
duty of, as to accommodations 500
liability, as affected by contributory negligence 500
duty to passengers 501
liability for willful wrongs of agents 503
duty in relation to the running of trains 504
liability for delay in 505
negligence in constructing road 506
repairing 506
defects in engines and machinery 506
application of the maxim *sic utero tuo ut alienum non lædas*, to. 507
as affected by contributory negligence 508

RAILROAD CORPORATIONS — (Continued). SEC.
liability for consequential damages ... 509
for injuries in the running of trains ... 510
in case of injuries resulting to trespassers upon the track ... 511
injuries to children ... 512
animals ... 513
for torts of servants in other cases ... 515

RECEIVER (see EXECUTION):
when appointed ... 377
duty on appointment ... 377
judgment creditor's right to, when ... 378
general right to, of judgment creditors ... 379
where an execution is returned unsatisfied ... 380
functions, powers, and duties of ... 381

REMEDY (see SUITS AT LAW; SUITS IN EQUITY; INJUNCTION; MANDAMUS):
at law, by and against corporations and others ... 325–356
in equity ... 357–372
general principles relating to ... 357
against corporations ... 357
by and against various parties ... 358
directors ... 359
at law ... 325–356
in equity ... 356, 357–372
of various parties ... 358
against stockholders in equity ... 363
of stockholders to restrain acts *ultra vires* ... 364
of creditors in equity for misappropriation of corporate funds ... 365
where an injunction will be granted ... 370
not be granted ... 371
specific performance ... 372
by injunction ... 364
to restrain unlawful acts of directors ... 364, 365
in equity against directors ...
of stockholders ... 364
of creditors for misapplication of corporate funds ... 365
for unpaid subscriptions ... 366
where an injunction will be granted ... 370
not be granted ... 371
for specific performance of a contract for a right of way ... 372
receiver, right of creditor to ... 378
by execution ... 373–377
where more land is taken under right of eminent domain than is necessary ... 406

REMEDY — (Continued). SEC.
by *quo warranto* ... 412–423
proceedings in the nature of ... 411
regulated by law ... 412
against private corporations ... 415
for mis-user and non-user of the franchises ... 416
for unlawful usurpation of an office in a private corporation ... 417
possession of the assumed office essential ... 418
non-user as a ground of forfeiture ... 419
in case of the destruction of the objects of the corporation, 420
pleadings and evidence in case of ... 421
judgment in case of ... 422
by *mandamus* ... 454
the writ and its functions ... 454
in this country ... 455
when issued ... 456
in the discretion of the court ... 456
practice and proceedings in case of ... 457
the writ and its functions, office of ... 458
to compel the performance of duty ... 458
corporations and officers to ... 458
when proceedings have been commenced in equity for the same purpose ... 458
will not issue where the duty cannot be performed ... 458
the party will be thereby involved in doubtful litigation ... 458
to control a discretion ... 458
instances where it would be a proper remedy ... 458
concurrence of facts necessary to authorize it ... 459
when it will not be issued ... 460
resemblance and distinction between, and injunction ... 461
the right arm of the law ... 461
against private corporations and officers ... 463
to compel the keeping of a register of the names of stockholders, 462
the admission of a director ... 462
the admission of a member to the privileges of ... 462
the performance of any specific duty ... 462
corporations may invoke its aid ... 463
to compel supervisors to subscribe for stock in a railroad corporation ... 463
to issue county bonds, as required by law ... 463
the return of bonds unlawfully issued ... 463
commissioners of lands to issue certificates ... 463
county officers to levy a tax ... 463

REMEDY — (Continued). SEC.
by *mandamus*, to compel inspection or delivery of corporate books or papers 464
will not be granted except for beneficial purposes 464
against an officer, no excuse that he purchased the books 464
as a remedy against railroad corporations 465
to compel railroad corporations to transport passengers to a particular terminus 465
in various cases 465
writ, to whom it should be directed 466
common-law doctrine as to service 466
service regulated by statute 466

RESERVATION (see PRIVATE CORPORATIONS; TAXATION):
of the powers of the legislature in respect to corporate grants 39
power cannot be exhausted 41
general statutes of 42
of right to amend charter 43
general laws relating to 44

RESERVED POWER (see CORPORATION; CHARTERS; DISSOLUTION):
in the legislature to alter or amend charters 39–40
resume 42–44
dissolve 437

RIGHT OF WAY (see SUITS IN EQUITY):
where specific performance of contract for, may be enforced in equity 372

ROLLING STOCK:
what is 427
character and quality of 427–429
how considered, as to mortgage liens 424–427

S.

SEAL (see CORPORATE SEAL; CONTRACTS):
corporate, definition and history of 244
private history of 245
how it came into use 246
corporate, incident of a corporation 247
former doctrine relating to 248
origin of the law relating to 249
present doctrine 251
what is 254
by whom it should be affixed 256
where an acknowledgment is required 257
doctrine as to, in the appointment of agents 258

SEAL — (Continued). SEC.
corporate authority may be conferred without 259
as evidence 260
not necessary in the appointment of agents 258, 259

SERVANTS (see AGENTS; OFFICERS; NEGLIGENCE; TORTS; CONTRACTS):
liability of corporations in case of negligence of 480–515

SHARES. (See STOCK; SHAREHOLDERS; PRIVATE CORPORATIONS.)

SHAREHOLDERS (see STOCKHOLDERS; MEMBERS):
are members; right to vote 58–61

SOLE CORPORATION (see CORPORATIONS; DEFINITIONS):
description of 2
the king is 2
an English invention 2

SPECIFIC PERFORMANCE (see SUITS IN EQUITY):
in case of a contract for a right of way 372

STOCK (see CORPORATIONS; PRIVATE CORPORATIONS; STOCKHOLDERS):
ownership of, constitutes membership 58
right to vote 58
by proxy 62
forfeiture of 85
assessments of 82, 86
notice of 90
sufficiency of 91
dividends, owners' right to 92
may sue for 95
on, in trust 96
right to sell and assign shares 98
liability of assignee of, to the corporation 101
purchase from a trustee 102
owners in equity to creditors 129
preferred, rights of holders of 107
when it can be issued 108
dividends on 108
defined 110
certificates of shares of 111
of, fraud in issuing 113
income of 114
character and quality of 114
transfer of, and how made 118
remedy where the corporation refuses to transfer 120, 125
liens of corporation on 122
when subject to attachment against an assignor 126

STOCK — (Continued). SEC.
overissued and watered 130
by-laws regulating transfer of 275, 276
providing for a corporate lien on. 277, 278
STOCKHOLDERS (see STOCK CORPORATIONS; PRIVATE CORPORATIONS):
generally no personal liability of 48
liable on obligations to the corporation 48, 66
distinction between, and partners 48
are members of the corporation 58
right to vote 58
by proxy 61
what they are presumed to know 62
personal liability of, under statutes 63
general liability of, on subscriptions 66
liability under statutes and constating instruments 67
on conditional subscriptions 67–76
where the condition is waived 72
void 73, 74
on subscriptions in contemplation of incorporation 77
subscriptions of, obtained by fraud, generally void 78
as affected by statutes or constating instruments 79
cases where defense to, may be made 80
assessments on and calls for 86–91
stock, when it may be forfeited 85
notice of assessment of 90
sufficiency of 91
dividends, his right to them 92
may sue for 95
on stock held in trust 96
right to sell and assign shares 98
liability of assignee to the corporation 101
to the *cestui que trust* 102–104
right to vote at corporate meetings 105
when liable in equity to creditors 129
right of access to books 106
action against the corporation when 127
preferred stock, rights of 107
when it may be issued 108
dividends on 108
scrip and preliminary subscriptions 109
rights in equity 355
may restrain by injunction unlawful acts of directors 360–363
may commence action for himself and others having a common interest 360
rights of, in equity, where the corporation refuses to sue 360

STOCKHOLDERS — (Continued). SEC.
rights against the illegal acts of other stockholders 361
to prevent acts *ultra vires* ..... notes, 361
shares and income, character and quality of..... 114
certificates, transfer of, how made..... 118
when refused on the books of the corporation..... 120
when the corporation may be compelled to transfer..... 125
of overissued and watered stock..... 130
lien of the corporation on their stock..... 122
stock when subject to attachment or execution against the assignor, 126
right of action against the corporation 127
injunction may restrain unlawful disposition of the funds by directors 364
may enjoin a violation of the corporate franchise 364
liability in equity for dividends received on shares, where creditors remain unpaid..... 365
in such cases may be compelled to pay *pro rata*..... 365
right of, to restrain directors from acts *ultra vires*..... 366
the corporation 366
change of the business 366

SUCCESSION (see PERPETUAL SUCCESSION):
consideration of 49, 50

SUITS AT LAW (see SUITS IN EQUITY; MANDAMUS; QUO WARRANTO):
right of a corporation to sue..... 325
liability to be sued..... 325
corporation liable to be sued by members. 327, 328
where suit may be brought..... 329
in case of foreign corporations, not citizens..... 330
when they may be brought in the federal courts 334
corporation may be an alien under the judiciary act 335
a citizen under the U. S. constitution..... 336, 337
and under act of congress for the removal of causes.. 338–342
rights of corporations in case of, under the national banking law, 342–344
parties to suit..... 345
process in 346
pleadings in 347
general denial, effect of..... 351
in, when corporation is estopped to deny its existence 349
when party dealing with the corporation is 348

SUITS IN EQUITY (see INJUNCTION):
by and against corporations 357
remedies of various parties in..... 358
against directors..... 359-363
stockholders' liability in..... 363

SUITS IN EQUITY — (Continued). SEC.
stockholders' rights to restrain contracts *ultra vires* 364
creditors' rights in, for misappropriation of corporate funds. 365, 366
doctrine as to parties in..... 367–369
where an injunction will be granted 370
not be granted..... 371
for specific performance. right of way..... 372

T.

TAXATION:
defined, necessity of..... 467
should be equally imposed..... 468
difficulty of, attending railroad property..... 469
statutes regulating..... 470, 471
what corporate property is taxable; double taxation..... 472
corporate property and interest subject to 473
exempt from..... 473
exemption statutes sustained 474
compensation paid in lieu of 474
where a sum is agreed upon in lieu of..... 474
the right to, cannot with safety be contracted away..... 474
but the current of judicial decisions sustains the right to contract in reference to 474
the right of the legislature to contract for exemption from, dangerous to the government..... 474
exemptions from, indications that the doctrine will not be extended 475
recent doctrine of the supreme court of the United States on the subject..... 475
where corporate property is used in different states 476
exemption of U. S. stocks from 477
from, under the national banking law..... 478
on account of municipal subscriptions to corporate enterprises..... 479
TELLER (see OFFICERS):
of a bank, authority of .....notes, 171
may receive deposits 171
authority to certify deposits and checks 171
paying, of a bank, authority to certify to checks. .....notes, 170
TORTS (see NEGLIGENCE ; DAMAGES ; RAILROAD CORPORATIONS ; FRAUD):
corporate liability for..... 281
general principles relating to..... 281, 282
of corporations, when liable for 283
may do wrongful acts, or cause them to be done..... 285

TORTS — (Continued). SEC.
of corporations, frauds of, or their agents 286, 288
by agents 288
particular acts of 290
occasion of loss 291
in securing contracts 292
when responsible for, on contracts 292, 293
right to repudiate contracts for, limited to original parties 294
ratification of contract effected by the fraud of the agent, 295, 296
liability for other wrongs 297
assault and battery of agents 298, 299
trespass to property 300, 301
negligence of agents 302
limitation of, in certain cases 303–307
complications arising from successive negligence ... 307
damages in case of 311
exemplary damages in case of 313
are they applicable to ? 315
extreme doctrine of 316
gross negligence of, and exemplary damages 317
inconsistency of the doctrine of, as applicable to 318
recent examination of the doctrine as applicable to 319
conflict growing out of the doctrine 322
damages against, for injuries resulting in death 323
elements of damages in such cases 324
liability of corporation for agents 480–516
instances of 481, 515
TRAIN:
railroad, duty of corporation in reference to stopping 497, 498
liability for injuries in getting on 499
duty of passengers in reference to 501
liability for delay in running 504
injury in running 510
injury to trespassers on the tracks by 511
children 512
animals 513
TRESPASSERS (see NEGLIGENCE; TORTS; CONTRIBUTORY NEGLIGENCE):
upon railroad tracks, how affects rights of, for injury 511
in the case of children 512
in case of animals 513
TRUSTEE (see DIRECTORS; INJUNCTION; SUITS IN EQUITY):
directors are, of stockholders and creditors 359

TURNPIKE CORPORATIONS: SEC.
grant to, for the construction of a road between two places, does not prevent grant to other companies on different routes..... 38

U.

ULTRA VIRES (see CONTRACTS; CORPORATE CONTRACTS; INJUNCTION; SUITS IN EQUITY):
doctrine of..... 229–241
different senses in which the term is used..... 230
contracts, not always void, or voidable..... 231–241
distinction between executed and unexecuted contracts in the application of the doctrine 233, 234
when neither party can avoid the contract though..... 235
common principles of justice require its execution..... 236
form of action in case of..... 237
applied to agents..... 238
doctrine of, in case of negotiable instruments 239
necessary or implied powers not..... 240
summary of the law relating to..... 241

W.

WRIT (see QUO WARRANTO; MANDAMUS; INJUNCTION):
of *quo warranto*, at common law..... 412
proceedings in the nature of 413
remedy regulated by constitutions and statutes..... 414
as against private corporations..... 415
on the ground of mis-user and non-user must be clear .. 416
for unlawful usurpation of an office in a private corporation 417
on the ground of assumed office possession and user, essential 418
non-user of the franchise as ground of forfeiture..... 419
on the ground of destruction of the object of the corporation... 420
pleadings in case of..... 421
judgment in case of 422
mandamus... 454
its functions..... 454
in this country..... 455
when issued, discretion of the court 456
practice and proceedings in case of..... 457
office of the writ..... 458
what necessary to authorize it 459
when it will not be issued..... 460
resemblance and distinction between, and injunction 461

WRIT — (Continued).
against private corporations and its officers 462
corporations may invoke its aid 463
to compel inspection of corporate books and papers 464
as a remedy against corporations 465
to whom directed and service 466

WRONGS (see NEGLIGENCE ; TORTS ; FRAUD ; AGENTS) :
of corporation by agent, liability for 480–515
willful 503


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